Toronto builders' forecast

TORONTO BUILDERS' FORECAST

Autumn 1992

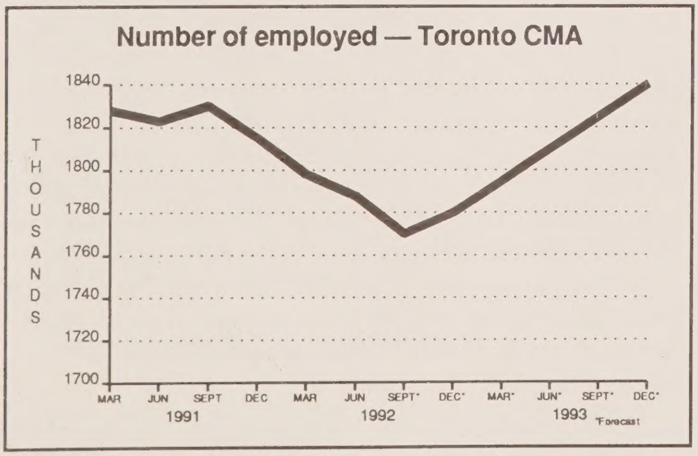
Highlights

- Local economy will share in North American recovery
- Toronto new home sales disappointing in 1992
- Potential for strong new home activity in 1993
- Condominium market will remain over-supplied
- Renovation activity to revive

Toronto to join the recovery

Of the major centres in Canada, Toronto has been one of the hardest hit by the recession. The level of employment has fallen by 191,000 persons, or 9.7 per cent during the recession. As of August 1992, the unemployment rate is 11.7 per cent (seasonally-adjusted). After several false starts at recovery, there are not as yet any good indicators of recovery at the local level. However, there are signs of improvement in the Canadian and U.S. economies, which will eventually lead to a turnaround locally.

The U.S. recovery is resulting in record levels of exports from Canada, although much of the export growth to date has been in industries which are not important to the Toronto economy. Assuming that the U.S. recovery continues, Canadian exports will become more broadly based and export demand for Toronto's manufactured goods will expand.



Source: Statistics Canada and CMHC forecast

As the Canadian recovery proceeds, Toronto's role as the national service centre will result in gradual improvements at the local level. This will include increasing strength in the Toronto-centred financial and business services industries and increased tourism.

In addition to the positive external factors there are some internal factors which create uncertainty about the timing and pace of the Toronto recovery.

The most important of these is the very high debt burden of consumers, business, and governments, which will cause these actors to be cautious about spending for some time. In addition, slow growth of pre-tax income combined with increasing taxes has resulted in erosion of consumers' purchasing power. Finally, high vacancies in non-residential real estate in Toronto will discourage building for years to come. As a result, the construction industry will not be able to fulfill its previous role as an engine of growth in the local economy.

As a consequence of the positive external factors, it is forecast that the long-awaited economic recovery in Toronto will begin by the end of the year, and the pace of recovery will accelerate during 1993. As employment improves and consumers become more confident about their job security and their personal finances, they will become more willing to spend and the momentum of Toronto's recovery will accelerate.

Migration supports housing market

During the housing boom, a rise in housing prices resulted in increased movement out of the Toronto CMA to other parts of the province. This included movement of workers to distant suburbs where housing costs were more affordable plus retired persons who cashed out their housing equity and moved to smaller communities. Statistics Canada reports that more than 220,000 persons left the Toronto CMA for other parts of the province during 1988-89, the year of peak housing prices. Since housing prices have declined, CMHC forecasts that this component of migration will fall to 170,000 persons per year during the forecast period. Simultaneously, other components of migration are also improving in Toronto's favour. This in-

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cludes growing immigration from other countries. Toronto receives about 40 per cent of all immigrants to Canada. Toronto's net migration is forecast to grow to 36,000 persons by 1993. But, this is only 60 per cent of the level achieved during 1986 to 1988.

Household formation has been depressed during 1991 and 1992, as a result of job losses. The return to growth in 1993 will cause household formation to recover to 26,000, which will support stronger housing demand.

Interest rates

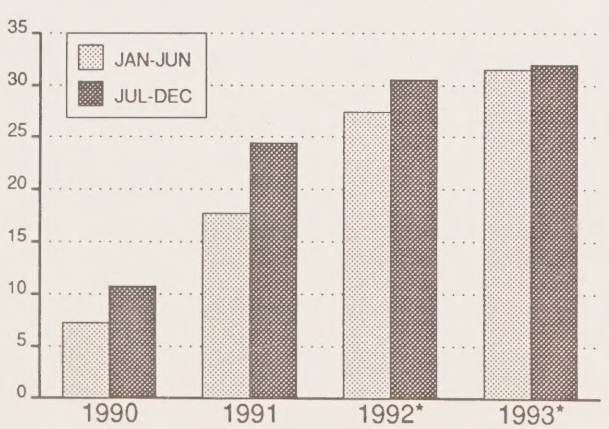
Strong downward pressures on the Canadian dollar emanating from high European interest rates and uncertainty surrounding the constitution contributed to a sharp rise in interest rates in late September. However, fundamentals call for lower rates and the spike in interest rates should be short-lived if exchange rate markets calm down. Inflation is low and expectations are only for a mild economic recovery for the rest of 1992. One-year mortgage rates should be around 6.00 per cent in December 1992 or the beginning of 1993. Three- and five-year rates are expected to stand to around 7.50 per cent and 8.25-8.50 respectively for the same period. Further interest rate increases are not ruled out in the short-term should downward pressures on the Canadian dollar continue.

In 1993, interest rates are expected to rise gradually in response to strengthening economic conditions and a stronger demand for mortgage loans. One-year mortgage rates are forecast to rise to around 7.50 per cent by the end of 1993. Mortgage rates with a three-year term are expected to rise to approximately 8.50 per cent and five-year mortgage rates to around 9.25 per cent during the same period

Strong first-time buyer demand

Since the housing market peaked in 1989, median prices of homes sold through MLS* have fallen by about 25 per cent for all house types. The combination of lower house

Per cent of renters who can afford to buy



* Forecast: July-December 1992; 1993.

Source: CMHC.

prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now as good or better than it was during the previous housing market recovery, which occurred during 1983 to 1985. According to CMHC's Affordability Measure, the percentage of renters who can afford to buy has been rising steadily and reached 27.4 per cent in the first half of 1992. Declines in interest rates will lead to further improvements in the second half of 1992.

Resale market now in balance

After being locked-out of the market during the boom, increasing numbers of first-time buyers are able to achieve homeownership, especially now that CMHC insures 95 per cent mortgages. Thus, the low end of the resale housing market has returned to balance and prices have stabilized. Many potential move-up buyers, on the other hand, are currently hesitant to take on the larger mortgages that would be associated with moving-up. In consequence, the resale market is over-supplied with more expensive homes.

While the resale market has returned to balance, the new home market has not fared as well. The share of new home sales compared to total activity (new plus resale homes) has fallen to 20 per cent in 1992, compared to an average of 35 per cent during the past decade.

Potential for gains in 1993

At the beginning of 1992, home builders and analysts were optimistic that a housing recovery was underway. The year was expected to bring steady increases in sales. In fact, expectations have been disappointed.

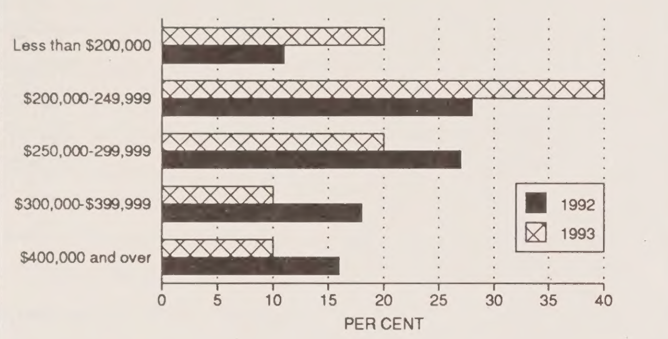
Sales of new homes are determined largely by the state of the resale market. When the existing home market tightens — indicated by a rising sales-to-listings ratio — demand shifts to new homes. Because the resale market has strengthened, sales of new freehold homes could have improved to about 12,500 to 13,000 units in 1992 compared to 9,963 units sold in 1991. However, freehold sales will total only 9,000 for 1992. The short-fall of up to 4,000 units indicates that most builders have been unable to find the product combinations that succeed with today's home buyers. To increase sales in 1993, builders will have to make adjustments soon, to offer the right products, in locations that are close to jobs and transportation routes, at prices competitive with the resale market. If these adjustments are made, starts of single-detached homes are forecast to reach 13,800 in 1993.

Housing demand is now strongest in price ranges under $200,000. The resale market has ample supplies priced under $200,000 in good locations. During the first seven months of 1992, builders have managed to increase offerings in the $200,000 to $249,999 price range, to 33 per

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

cent of single-detached starts. However, only 11 per cent of single-detached starts have been below the important $200,000 threshold. The low-end, first-time buyer market is largely untapped by home builders. For 1993, an appropriate distribution of activity would be 20 per cent below $200,000 and 40 per cent between $200,000 to $249,999. Twenty per cent of starts would be priced between $250,000 to $299,999 and the remaining 20 per cent at $300,000 and over.

Absorbed singles by price range — Toronto CMA forecast, 1992-1993



Source: CMHC.

If it is achieved, this increase in lower-priced offerings will reduce the average price of new singles, from $320,000 in 1992 to $290,000 in 1993.

Variations across the Toronto market

Western parts of the Toronto market are experiencing stronger new homes activity than the north and east. This can be attributed to better locations and to product availability. Mississauga, Brampton, and Oakville have good transportation access to downtown and western employment centres. Builders in the west are also offering more product which is appropriate and affordable to first-time buyers. The west will continue to lead in 1993. On the other hand, the east and north are at a disadvantage in terms of transportation. Also, recovery in those areas depends very much on the establishment of stability and confidence in the automotive sector.

Good demand for semis/rows

Some builders have successfully responded to first-time buyer demand with low rise attached housing - semi-detached and row homes, both freehold and condominium. Such projects face stiff competition from the resale market and success is very dependent on pricing and location. Starts of these types of homes will reach 2,500 units in 1992 and 3,100 in 1993, compared to 1,859 in 1991.

On the other hand, the high-rise condominium apartment market is over-built. Inventories that have never been occupied continue to exceed 2,000 units and sales have been slow. In addition, there is a very large potential supply of investor-owned units which could become available in the resale market. Finally, improved affordability is encouraging many condominium owner-occupants to move to ground-oriented housing. The apartment condominium market will remain over-supplied for all of 1992 and into 1993. Condominium apartment starts may total 1,000 units in 1992 and 2,000 in 1993.

Based on plans announced by the provincial government, assisted rental starts are forecast to total 8,500 units this year and taper slightly to 7,500 units in 1993.

Need for small building lots

The supply of building lots in Toronto CMA is sufficient to satisfy demand until at least late summer 1993. However, only a minority of the land supply is suitable for low cost starter homes. Thus, if builders are to capitalize on demand from first-time buyers in 1993, the supply of competitively-priced, smaller lots (25 to 30 feet) must soon be expanded.

Soft demand for rentals

Demand for rental housing is currently constrained as the result of employment losses plus the movement of tenants to homeownership. The apartment vacancy rate has risen from 0.7 per cent in April 1990 to 1.9 per cent just two years later. During 1992 and 1993, new supplies of assisted rental housing will be about equal to the growth in demand. Therefore, the apartment vacancy rate will increase marginally to 2.1 percent in October and 2.3 per cent in April 1993. As employment and migration recover, demand will begin to increase in the second half of 1993, causing the vacancy rate to fall slightly, to 2.1 per cent.

Opportunities for renovators

Most home renovations are made within two years of moving. Because the Toronto housing market slowdown began in early 1989, renovation activity has also slowed. Increased home sales during 1992 and 1993 will result in more renovation activity. However, first-time buyers are dominating the housing market. These buyers generally are not prepared to spend as much on renovation as were the move-up buyers who renovated during the boom. Thus, renovation jobs will on average be smaller than in previous years.

The value of building permits issued for home improvements totalled $226 million in 1991, a drop of 30 per cent since 1989. No change is expected for 1992. In 1993, activity will expand to $250 million.

Forecast Summary — Toronto Market

	1991	1992*	1993*
New Home Market			
Total Starts	18,814	21,600	26,700
Homeownership Starts			
Single-Detached	9,459	9,000	13,800
Semi-Detached/Row	1,859	2,500	3,100
Apartment Condo	1,574	1,000	2,000
Rental Starts			
Private Rental	198	600	300
Assisted Rental	5,724	8,500	7,500
Completed and Unoccupied Units – December			
Single-Detached	356	425	450
Total	3,374	2,800	1,900
Average Monthly Absorption Rate			
Single-Detached	871	750	975
Total	2,154	1,800	2,100
Average Price New Absorbed Single ($)	359,880	320,000	290,000
Renter Households That Can Afford to Buy (July-December)[1] (%)	24.4	30.5	32.0
Existing House Market			
MLS Sales [2]	38,144	42,500	43,500
Average MLS Price ($)	234,313	218,000	223,000
Rental Market			
Vacancy Rate (Oct) (%)	1.8	2.1	2.1
Average Rent, 2 Bedroom (Oct) ($)	730	765	795
Forecasting Assumptions			
Mortgage Rate 3 Year (%)	10.90	8.65	8.19
Employment (Year end)	1,815,000	1,780,000	1,840,000
Household Formation	20,000	19,000	26,000
Net Migration	25,000	28,000	36,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC.

* Forecast by CMHC.

1 *Canadian Housing Markets*, January 1992; assumptions: average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate.

2 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC's First Home Loan program a resounding success

When it was introduced in early 1992, it was anticipated that 10,000 households across Canada would use CMHC's new program this year to buy their first home with only a 5 per cent downpayment. Nationally, that figure was surpassed during the first few months. In just the Toronto CMA, 3,600 households have used it by the end of July and it is expected that over 7,000 households will have used it by the end of 1992. One out of every six home buyers will use this program in 1992. Clients of the First Home Loan Insurance Program have Gross Debt Service Ratios (GDS) similar to households which have higher downpayments. This shows that many households can afford the monthly costs of owning a home, but accumulating the down payment can be difficult.

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TORONTO BUILDERS' FORECAST

Fall 1995

Synopsis

- The Toronto real estate market showed considerable strength during the summer of 1995, as lower mortgage rates are opening the door to homeownership. Activity may now be at its peak.
- The Toronto economy is sending out mixed signals. Watch for a modest recovery to resume during 1996.
- For all of 1995, new home sales will fall by 18%, to 13,800. Housing starts will total 16,200. 1996 will see 14,400 new home sales and 17,100 starts.
- Homeownership is accessible at incomes as low as $40,000 to $50,000.
- The greatest opportunity for builders in 1996 will be first-time buyers. They could also see increasing demand from second-time buyers, for low end singles.

Mixed signals from the economy

After 5 years of weakness, Toronto's economy finally broke out of recession during the second half of 1994. Key economic indicators showed strong improvements, although the evidence shows that the Toronto economy has not yet regained all of the losses that were incurred at the start of the decade. More recently, increases in interest rates during 1994 and again at the start of this year have caused the recovery to pause.

Employment is the key factor that determines the long-term performance of the housing market. The Toronto Census Metropolitan Area (CMA) lost 176,000 jobs during the recession, or 8.1% of all jobs. Since then, about 100,000 jobs have been recovered, and most of this recovery occurred during the second half of 1994 and early 1995.

Since the spring, the level of employment has been essentially flat. During the recovery, jobs have been created in manufacturing and construction. Consumer spending has also increased, but this has not yet resulted in more jobs in the retail trade sector. All levels of government are reducing their spending and cutting jobs. This will limit job growth during 1996.

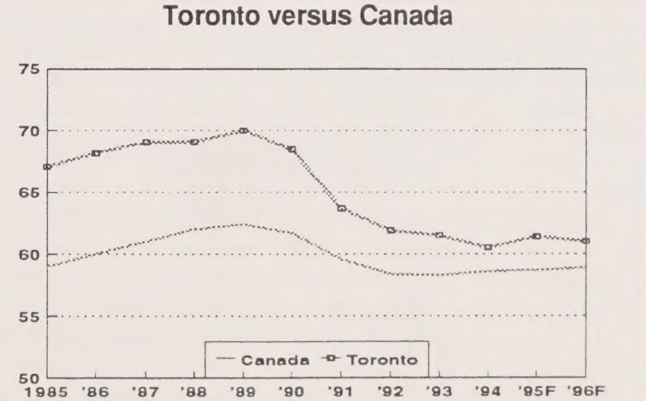
For 1996, prospects are quite favourable in goods-producing industries, but the Toronto CMA economy depends mainly on service industries (government, finance, retail trade, professional services, etc.). Growth prospects are more modest in service industries. In fact, for many services industries - in both the private and public sectors - economic restructuring remains an ever-present reality. For a large segment of the population this will put a damper on consumer spending.

Because of this mix of positives and negatives, it is difficult to predict the timing and strength of economic recovery in the Toronto economy. The most likely scenario is for modest job growth. After 80,000 jobs were created in late 1994 and early 1995, an additional 30,000-40,000 jobs might be created by the end of 1996. Prospects in Toronto are very dependent on growth in the US and the rest of Canada, in order to create demand for our exports. It is likely that recovery in Toronto will continue to lag behind the rest of the country, as it has for the last 5 years.

Slower population growth

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has been reduced, and Toronto's advantage is now only two and a half percentage points. During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration

Percentage of Adults with Jobs
Toronto versus Canada



Source: Statistics Canada and CMHC forecast

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and rapid population growth. Housing demand was very strong, to accommodate the expanding population. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to an estimate of 18,000 in 1994. It is beginning to recover, to 20,000 in 1995 and 22,000 in 1996.

Interest rates

Employment is the key factor that determines long-term demand for housing, but in the short-term mortgage rates are most important. They influence consumers' choices between owning versus renting.

Easing inflationary pressures caused by weak economic activity will favour additional declines in mortgage rates until year end. The one-year rate is forecast to fall to 7.00-7.50% while the five-year rate is expected to decline to 8.00-8.25%. As the Canadian and US economies strengthen in 1996, mortgage rates are expected to stabilize then trend upwards.

Consumers in control

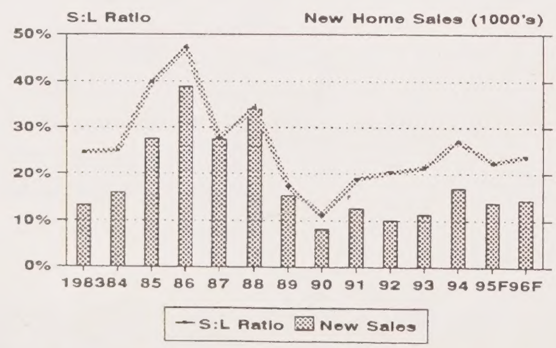
The mortgage market is extremely competitive. Consumers have leverage to negotiate the terms of their mortgages, and even their mortgage rates. For example, in the last week of September, borrowers in Toronto were negotiating 5-year mortgages at an average rate of 8.46%; lenders were quoting 8.95%. By using their negotiating power, borrowers were saving an average of $47 per month, based on a $150,000 mortgage.

In the new homes market, builders can gain a competitive edge by obtaining equivalent rate discounts (or better) for their buyers, and offering guaranteed interest rates.

Resales set the pace in the housing market

Experience shows that the single greatest factor that affects new sales is the state of the resale market. In particular, new home sales are strongest when the resale market is tight, as indicated by a high sales-to-listings ratio. When the listings ratio rises, buyers have fewer choices in the resale market, and they have less ability to bargain on price. In fact, when the ratio is quite high (above 30%), prices tend to rise in the resale market, giving buyers more incentive to look at new homes. But, when the ratio is low (below 20%), prices of resales tend to fall, which discourages buyers from choosing new homes. The following graph shows the relationship. The number of new sales (shown as a bar) was pushed up during 1985-88 by a very high listings ratio (shown as a line). During the early 1990's, a low ratio resulted in much slower sales. In 1994, however, the resale market tightened, allowing builders to increase sales. In the long-term, each 1 percentage point increase in the listings ratio results in about 700-800 additional new sales per year.

New Home Sales Influenced by State of Resale market



Source: GTHBA/TREB/CMHC

A brief discussion of the resale market and its outlook is needed, to set the stage for the forecast of new homes activity.

During 1991 to early 1994, there were three periods of significant reductions in mortgage interest rates. Each of these produced an improvement in affordability and stimulated a strong wave of home sales through MLS[1]. Higher rates during the second half of 1994 and early 1995 depressed the resale market and dropped the sales-to-listings ratio to below 20%. During 1995, interest rates have fallen once again. A fourth buying wave is now underway and the sales-to-listings ratio has jumped: the sales-to-listings ratio is currently close to 30%. However, it appears that the market has peaked. In the coming months the resale market will slow. During 1996, the critical sales-to-listings ratio will settle into a range of 23-25%.

Interest rates are expected to be stable or increase slightly during 1996, but there will be stimulus from modest job growth and continuing population growth. In consequence, 1996 may be one of the most stable years ever seen in the Toronto real estate market, in marked contrast to the wild swings seen in the first six years of the decade.

New homes follow

The Toronto new homes market has followed the lead of the resale market. After a very weak start this year, new home sales were much stronger during the summer. Consider this: for all of 1994, new sales totaled 16,920; for the first four months of this year, CMHC estimates that sales were equivalent to a lowly annual rate of 9,600. For the next 4 month period (May to August), the sales rate jumped to 17,900.

With the expected slowdown in the resale market during the coming months, opportunities for new home sales will also be reduced. By late this year and into 1996, monthly sales may reach a range of 14,000 to 15,000 units. For all of 1995, CMHC forecasts 13,800 sales (including 9,000 freehold units and 4,800 condos). This will be 19% below 1994's level. For 1996, the forecast is 14,400, including 9,400 freeholds and 5,000 condos.

The above figures are "seasonally-adjusted", which make it easier to spot trends in the market. While we expect that 1996 will see sales stabilizing on a seasonally-adjusted basis, there will be month-to-month variations that reflect the normal flow of the seasons: very strong buying as winter ends (50% above average in March), a slowdown in July and August (30% to 40% below average), about average during the fall months, and then falling 25% to 30% in December.

It is very interesting to compare the seasonal patterns in the new and resale markets. **For July and August, resale volumes normally fall by about 8% to 10% below normal, while new home sales fall by 30% to 40%. This suggests that builders may be able to develop a stronger summer market.**

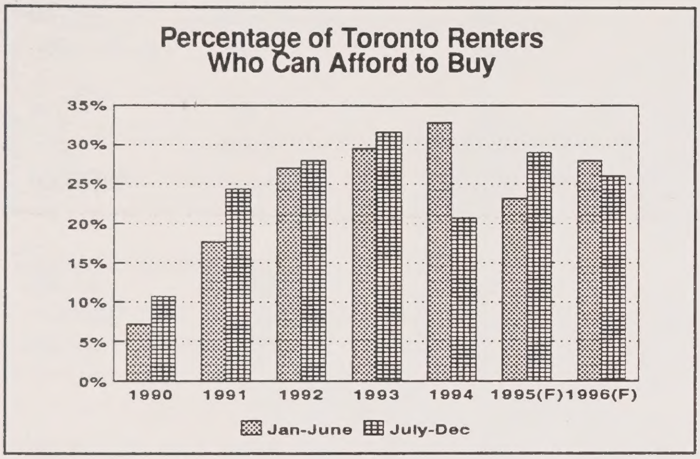
First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first-time buyers. In the last five years, 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. At today's mortgage rates, an income of $40,000 to $50,000 is required to buy a modest starter home in Toronto. This is much better than in the late 1980's, when the required income was $75,000 to $80,000. This change has made

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

homeownership accessible for thousands of renters, including many who are at fairly late stages in their working lives.

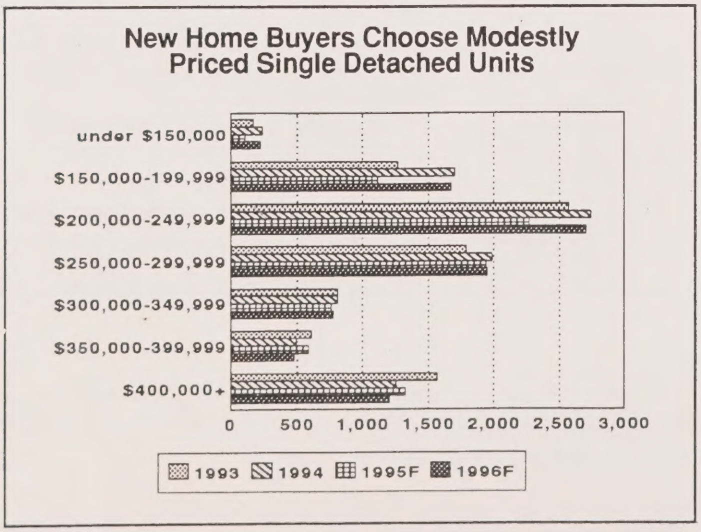
Today, there is still a sizeable pool of renters of all ages who could potentially become homeowners. Many are staying in rentals by choice, but many renters are not aware that they can now afford to buy. Surveys show that renters often over-estimate the cost of a mortgage, or the income required to carry it, and often by considerable amounts. Industry faces a challenge to educate renters on the possibility of homeownership. **The greatest opportunity in the market is to create products that meet the needs of low income buyers, and to provide features that are not available in the resale market.**



Source: CMHC

Move-up demand, on the other hand, has been weak. Potential move-up buyers are hesitating because of job uncertainty and because of equity erosion during the first half of the decade, especially from 1990 until mid-1992. **Buyers who made a first-time purchase after mid-1992 are in the best position to move, and builders could see more demand from second-time buyers in 1996 and beyond.** This market will chiefly be looking for low end singles, priced under $250,000.

The increasing dominance by first-time buyers is shown by changes in what is selling. The following graphic shows that sales are greatest for modest product. However, during 1995, weakened affordability reduced first-time purchases of new homes. Better affordability in 1996 will mean more first-time and second-time purchases and thus 50% of singles will be priced under $250,000.



Source: CMHC.

The median house price for first time buyers in Toronto is about $150,000 (50% of buyers pay less than this). Another 25 to 30% of first-timers pay $150,000 to $175,000. This price sensitivity explains why builders are having increasing success with small single-detached homes from $160,000 and up, semis from $140,000, and town-homes from $120,000.

Growing market for condo apartments

There are at least two major segments in the market for condo apartments. One is the off-shore buyer, who is mainly concerned with quality. The other is renters, who want ownership options that are cost-competitive with renting, but offer the same life-style. A number of builders have found success in this segment, with low-amenity projects that offer low monthly costs in good locations. Such projects have the potential to shift thousands of renters into homeownership in the coming years.

Housing starts follow sales

For most new homes, an actual "housing start" occurs 4 to 9 months after the sale. Because sales were slow early this year, starts have dropped recently. The greatest reduction has been for freehold homes, especially single-detached homes, which will fall by more than 20% this year. But, condo apartment sales have been quite strong for most of 1994 and 1995. Therefore, condo apartment starts will increase by 84% this year.

Combining weakness for freehold homes and an increase for condos, total starts of homeownership units will fall by 11%, to 14,175 this year, from 15,897 in 1994. These starts will be slightly more than new home sales (13,800) because some of this year's starts were actually sold in late 1994.

Rental starts will fall by 20% in 1995, to 2,025 units, and drop sharply in 1996, due to the wind-down of the provincial government's assisted housing programs.

In total, housing starts will reach only 16,200 units in 1995, down 12% from 1994.

In 1996, starts are forecast to increase by 6%, to 17,100 units, even though rental construction will drop sharply and new home sales will increase only marginally. Strong new home sales during the second half of this year will cause elevated starts during the first half of 1996. Construction will taper-off later next year.

Starts in 1996 will include 16,300 ownership units (well in excess of the 14,400 new home sales), and only 800 rental units.

Land supply in the Greater Toronto Area

At the beginning of 1995, about 216,600 lots were on-stream for short-term and medium-term availability. This included 64,700 lots for single-detached homes and 151,900 for multiple unit structures. Depending on how strong demand is in future, this supply is adequate to meet market needs for 3.2 to 6.3 years for singles, 2.5 to 5.3 years for semi-detached homes, 6.7-27 years for apartments, and 6.6-30 years for row homes.

The 1995 survey report will be available in the coming weeks. For additional information, please contact CMHC's Toronto Branch Market Analysis Department.

Rental market tightens

In the Toronto CMA, the vacancy rate peaked in October 1992, at 2.2%. It has fallen to 1.0% as of April 1995. Continuing population growth is fueling demand. Meanwhile, new supply is slowing. The apartment vacancy rate will fall further, reaching 0.3% by October 1996. This reduction in the vacancy rate will result in a pick-up in the rate of rent increases, to 3% in 1996.

Forecast Summary Toronto Market

	1994	1995*	1996*
New Home Market			
Total Starts	18,443	16,200	17,100
Homeownership Starts	15,897	14,175	16,300
Single-Detached	10,811	8,200	9,800
Semi-Detached/Row	3,754	3,525	3,900
Apartment Condo	1332	2,450	2,600
Rental Starts			
Private Rental	47	25	100
Assisted Rental	2,499	2,000	700
Average Monthly Absorption Rate			
Single-Detached	768	675	750
Total	1,503	1,400	1,475
Average Price New Absorbed Single	$291,921	$305,000	$300,000
Existing House Market			
MLS[1] Sales	44,237	40,000	42,000
Average MLS Price	$208,921	$204,000	$204,000
Sales to Listings[2]	27.1%	22.4%	23.8%
Rental Market			
Vacancy Rate (Oct)	1.2%	0.7%	0.3%
Average Rent, 2 Bedroom (Oct)	$784	$800	$825
Forecasting Assumptions			
Employment (Year End)	2,067,000	2,115,000	2,150,000
Household Formation	18,000	20,000	22,000
Net Migration	37,000	37,000	37,000
Renter Households That Can Afford to Buy (July-December)[3]	22.0%	29.0%	26.0%

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.
* Forecast by CMHC
1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association
2 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.
3 Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

CMHC's annual housing conference

In Toronto's complex and changing housing market, there is just one simple equation - knowledge breeds success. CMHC's expert analysts are offering to share their knowledge with you, at the Housing Outlook Conference in Toronto on Wednesday, November 29th.

Topics to be covered include the economic and housing market outlooks for Canada, Ontario, and Toronto; how demographic change is affecting long-term housing demand; land supply in the Greater Toronto Area; Toronto's changing rental market; financing preferences of homebuyers; and the profile of first-time homebuyers.

The fee for this content-packed conference is $175 plus GST. Book before October 15 and the fee is just $150 plus GST. Fees include lunch and all conference materials.

Further information is available at (416) 869-1156 or (416) 869-0141.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

TORONTO BUILDERS' FORECAST

Autumn 1991

Highlights

- Strong international migration to lead housing recovery.
- 1992 Toronto starts to climb to 22,150.
- Price of resale housing to average $238,000 in 1991.
- Vacancy rate to climb to 2.2 per cent in October 1991.

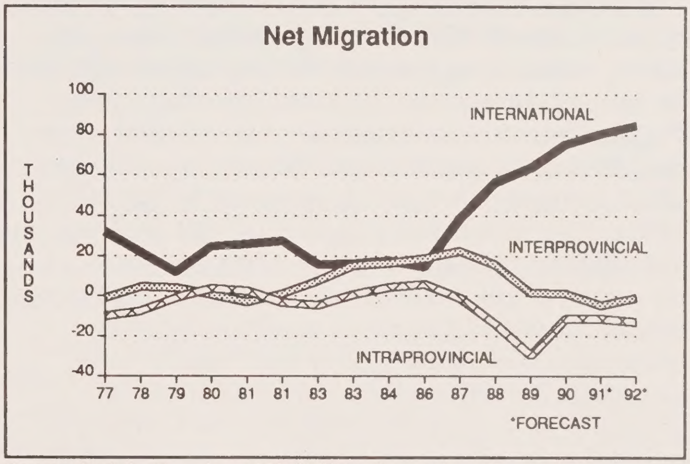
Growth to Return

After 8 months of continued decline in employment, the Toronto economy bottomed out in April, 1991. Over those 8 months, the unemployment rate jumped from 5 per cent to over 9.5 per cent, while 74,000 jobs, representing almost 4 per cent of the total, were lost. Most of these jobs were in the manufacturing and construction sectors, though almost all sectors experienced some job loss.

The economy is expected to gradually improve over the next year, led by the residential sector and exports. In addition, the Provincial Government's expenditure program will assist in the recovery of demand. Employment is expected to pick up in the hard hit manufacturing sector as well as construction, trade and services.

A key factor behind the renewed vigour of the Toronto economy will be the expected high levels of migration to Toronto. This will result from the federal government policy to increase levels of immigration. Of the 100,000 immigrants expected to arrive in Ontario in 1991, nearly 81,000 are expected to land in Toronto. This figure will rise to about 85,000 in 1992. At the same time the level of out-migration from Toronto to other parts of Canada will begin to flatten as Toronto leads the economic recovery. In aggregate, we anticipate that the net number of new migrants to Toronto will range between 65,000 and 70,000 in each of 1991 and 1992. At an average of 3 persons per household, this will generate demand for over 20,000 housing units, though some of the migrants may double up for the first years of residency.

As a result of this renewed migration, the level of unemployment is not expected to improve substantially during the early part of the recovery. Moreover, many residents who left the labour force because of the recession, but remained in Toronto, will re-enter the labour force as job prospects improve, keeping unemployment rates in the 8 to 9 per cent range for most of the latter half of 1991 and into 1992.



Source: Statistics Canada to 1988; CMHC estimates thereafter.

Interest Rates

Interest rates are not expected to drop much further, if at all. As the economy becomes stronger and the Bank of Canada continues to watch inflation, interest rates in the third and fourth quarter of 1991 should stabilize. U.S. rates, which are expected to rise due to a stronger economy and fear of higher inflation will be another reason for Canadian rates holding steady. The economic recovery in Canada along with rising U.S rates will put upward pressure on Canadian rates at the end of 1991 and the beginning of 1992; however, the rise will be moderate.

Canada

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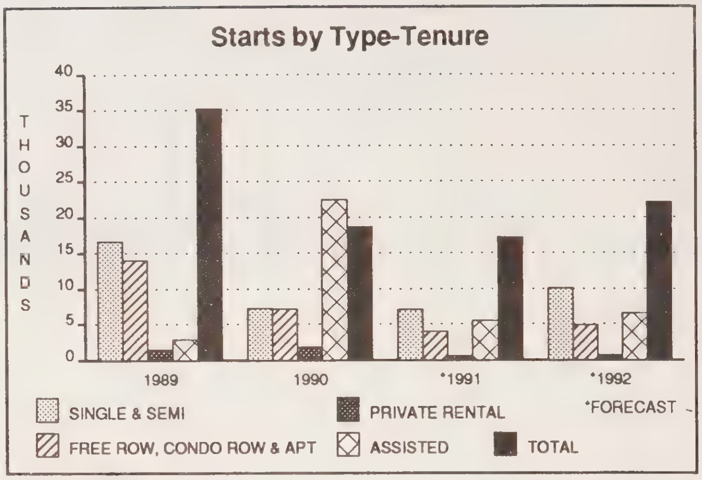
Interest Rates Forecast

	1 yr	3 yr	5 yr
1990 -1Q	12.75	12.67	12.67
-2Q	14.25	14.25	14.25
-3Q	13.75	13.75	13.67
-4Q	12.83	12.83	12.83
Avg	**13.40**	**13.38**	**13.36**
1991 -1Q	11.25	11.67	11.67
-2Q	10.25	11.08	11.25
-3Q	10.00	10.75	11.50
-4Q	9.75	11.00	11.50
Avg	**10.31**	**11.13**	**11.48**
1992 -1Q	9.75	11.00	11.50
-2Q	10.00	11.00	11.50
-3Q	10.00	11.00	11.50
-4Q	10.00	11.00	11.25
Avg	**9.94**	**11.00**	**11.44**



Source: CMHC.

Housing Leads Recovery

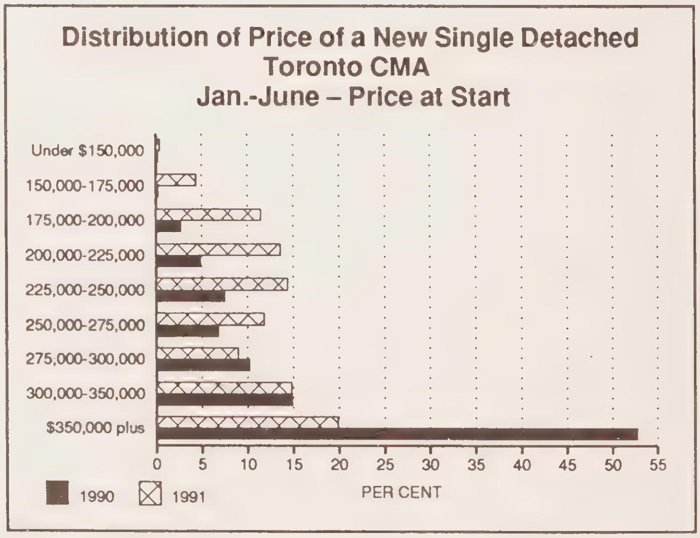
Housing is traditionally a leading indicator of economic cycles. By March, 1991, both resale and new home sale activity were extremely strong. This renewed strength was the result of lower interest rates, and lower house prices. The combination of lower interest rates and lower prices resulted in an increase in the number of renters who could afford a starter home from 7.2 per cent in the first half of 1990 to 17.7 per cent in the first half of 1991. Builders took advantage of this resurgence in first time home ownership, as they provided lower priced housing that was competitive with higher-priced rental housing, thus encouraging households to move from rental to home ownership. The improvement in the market will be gradual, as the forecast improvement in the economy is expected to be gradual, and households will be cautious about purchasing a home until the recovery is firmly established. By the second quarter, consumer confidence started to improve: the Conference Board index jumped to over 87, from the 75 level where it had been for over a year. But, most of the improvement in the index was due to the housing component, underlining the weakness felt on other areas of the economy.

New Home Market To Remain Balanced

Single detached housing starts in the first half of 1991 remained extremely weak, with only 3,663 units started in the first 6 months, compared to 3,700 in 1990 and 9,522 in 1989. However, the upturn in new home sales which occurred in the spring of 1991 and then levelled off by June, will result in a small increase in single detached starts in the second half of the year, bringing total single detached starts for 1991 to 7,000 units, approximately the same as in 1990. The upturn will return in 1992, when total detached starts will number 10,000.

One important indicator of the return of the market to a more balanced state is the decline in the number of completed but unsold detached units. In June, 1990, this number stood at 1,024, compared to only 151 in June 1989. However, by June 1991, the number fell to 496, reflecting the ability of builders to sell off their unsold inventory during the spring market. Similarly, the total supply of units, which consists of the unsold inventory as well as units under construction and units for which a permit has been issued, fell from 12,070 in June 1990 to 9,416 in June 1991.

Most of the new single detached starts in the first half on 1991 occurred in Mississauga: of the 3,663 starts during this period, 41 per cent were in Mississauga, up from 12 per cent in the first half of 1989. In contrast, York Region had 27 per cent of the starts in the first 6 months of 1991, compared to 45 per cent in the first half of 1989. Mississauga had a strong starts record because there was a supply of suitably zoned and serviced lots. As the recovery becomes more established, starts are expected to spread more evenly across the Toronto area.



Source: CMHC.

Housing starts were evenly distributed across price ranges with half falling between $175,000 and $275,000 and only one fifth of the units priced above $350,000. This contrasts with the price distribution in the first half of 1990, when over 50 per cent of starts were priced above $350,000. With the recovery being only gradual, and much of the demand generated by first time buyers, the price distribution for the first half of 1991 is not likely to change over the next year and a half. The median price, which in the first half of 1991 was $259,900, will likely rise by 5 per cent, approximately the rate of inflation.

Townhouse Demand to Remain Strong

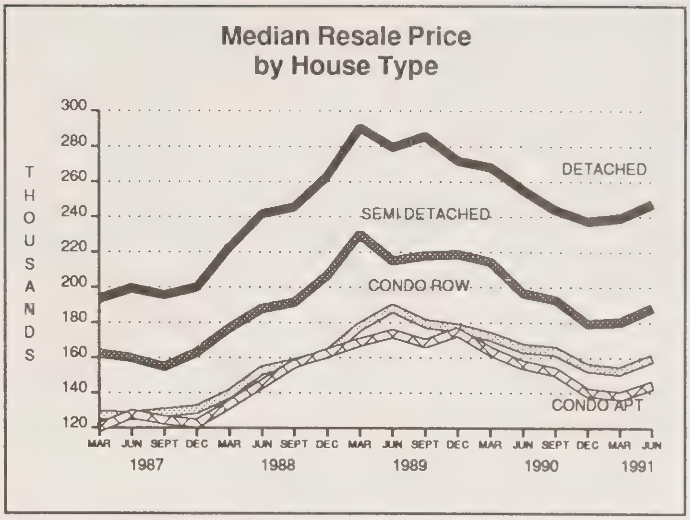
The demand for lower priced housing by first time buyers will result in an increase in the demand for row housing. Because of the publicity surrounding the condominium glut, and a reluctance to pay maintenance and common fees, most of the row units will be freehold tenure. The major difficulty will be to find land that is suitably zoned for such tenure. In 1990, there were 785 freehold row units, and this is expected to increase to 1,200 in 1991, and 1,500 in 1992.

Construction of condominium apartments, which in 1987-89 averaged 12,000 units per year, fell off in 1990 to just 5,900 units. The major reason for this decline, in addition to the general downturn in the economy, was that there were too many condominium units on the market as a result of over building in the earlier period. During this period, the median price of a resale condominiun apartment fell from $174,000 in June 1989 to $144,500 in June 1991. Consequently, condominiums purchases, which in 1987-89 were viewed as good investments, even if rented out, were no longer viewed as good investments with high potential for price appreciation.

The supply of new condominiums, as measured by the sum of units with a permit, under construction, and completed but not purchased, has been falling over the past year, bringing the market into a better balance. But until the view is reestablished that condominiums are a good investment, we do not expect a major improvement in starts; for 1991, we expect just 2,500 starts, rising to 3,000 in 1992, and the price of new units should remain flat through most of the next 18 months.

Resale Market to Remain Balanced

Traditionally, demand for resale housing falls off during the summer months, and then improves in September and October. A similar pattern is expected for 1991, resulting in an average of 2,750 sales per month over the second half of the year. This will bring total Multiple Listing Service (MLS)* sales for the year to 41,000, an increase of over 50 per cent from 1990. In 1992, sales will continue to be strong, though the spring of 1992 is not expected to be as strong as the spring of 1991, when a great deal of pent-up demand was experienced. As a result, MLS sales in 1992 will fall to 38,000 residential units. A large supply of listings will prevent prices from rising greatly, and for the entire year, we expect the average price to be $238,000, 7 per cent lower than in 1990. Prices should then begin to gradually increase, by approximately 6 per cent, averaging $252,500 in 1992.



Source: Toronto Real Estate Board.

Toronto's resale market moved from a buyer's to a seller's market in the spring of 1991, as first time buyers re-entered the market in large numbers. By May, however, the market returned to a balanced condition, as the number of sales and listings both rose. The market remained weak in the more expensive price ranges, where prices exceeded the finances of most first time purchasers. Consequently, part of the recent fall in prices was the result of a change in the mix of housing being sold.

Higher Vacancy Rates Expected

In April, the vacancy rate in private rental accomodation rose to 1.6 per cent, from 0.7 per cent the previous year. The reasons for the increase include the recession and the competition from condominium units being rented. It is not likely that the effect of the latter two will decline until 1992. Consequently, we expect the vacancy rate to rise in October 1991 to 2.2 per cent, and then fall to 1.8 per cent by October 1992.

One reason the vacancy rate will not decline faster is that there will be a big increase in the number of subsidized units being built in Toronto as a result of federal and provincial housing programs. Between 1987 and 1990, the number of subsidized units started averaged 2,300 units per year, while in 1991 this figure is expected to climb to 5,500 units, further increasing in 1992 to 6,500.

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

At the same time, the number of private rental units will fall from an average of 1,750 units to below 750 units.

Land Supply to Become Tighter

As the economy begins to improve, the demand for serviced lots will also increase. The demand for small lots is increasing already as builders try to meet the anticipated demand for lower priced detached and row housing. In contrast, demand for land with zoning for expensive housing remains weak. However, with very few actual land sales, it is difficult to establish a market price trend for land.

Renovation Market To Improve

In 1987, the average homeowner paid $2,230 for home improvements and renovation; a market of over $1.2 billion in Toronto. Of this amount, three quarters was for renovation and repairs, while the remainder was for additions. In addition to homeowner renovation, there is also renovation activity in rental and socially assisted housing; in aggregate, the market was almost $2 billion. This market increased in 1988 and 1989, but appears to have levelled off in 1990 and the first part of 1991, as households decided to postpone any major expenditures during the recession. As the recession ends, we expect some improvement in the renovation market, and this should accelerate in 1992. Consequently, for 1992, we expect the renovation market to total $2.7 billion.

For further information call the Market Analysis Department, Toronto Branch, at (416) 781-2451.

Forecast Summary Toronto Market

	1990	1991*	1992*
New Home Market			
Total Starts	18,723	17,200	22,150
Detached Starts	7,067	7,000	10,000
Multiple Starts			
Homeownership	7,332	4,100	4,950
Private Rental	1,840	600	700
Assisted	2,484	5,500	6,500
Renter Households that can Afford to Buy (Jan. June)	7.3	17.7	17.5
Existing House Market			
MLS Sales	26,779	41,000	38,000
Average MLS Price	$255,020	$238,000	$252,500
Rental Market			
Vacancy Rate (Oct)	1.0	2.2	1.8
Average Rent, 2 Bedroom (Oct)	689	720	750
Forecasting Assumptions			
Net Migration*			
International	75,470	80,720	84,800
Interprovincial	1,299	-4,688	-720
Intraprovincial	-11,250	-11,500	-12,750
Total	65,519	64,532	71,330
Employment ('000 of jobs)	1,931	1,820	1,911
Mortgage Rate, 3 Year	13.38	11.13	11.00

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TORONTO BUILDERS' FORECAST

Spring 1992

Highlights

- Homeownership affordability is at the best level since 1986.
- Single family starts will climb 33 per cent.
- Balance in the market will result in price stability.
- Existing inventories will limit opportunities for new condominium sales.

Consumers lead the 1992 recovery

The recession hit most major sectors of the Toronto economy, including manufacturing, construction, transportation and utilities, and retail trade. The number of jobs fell by 138,000 (7 per cent) in a 12 month period from April 1990 to April 1991. However, employment levels were stable for most of the remainder of 1991, with a small decline at year end and early 1992. With Canadian interest rates now at the lowest level in almost two decades, and with recent declines in the Canadian dollar, conditions are right for consumer confidence to improve and the long-awaited recovery to begin in earnest.

Due to lower interest rates, consumers and businesses are experiencing relief from debt servicing costs. It is expected that in the coming months consumers will give priority to debt reduction, but they will also gradually increase their spending during 1992 and 1993, particularly on housing and consumer durables. This will result in a return to growth, albeit slow growth, in manufacturing and retail trade.

The finance, insurance, and real estate sector will also contribute to the recovery, because of the recent dollar volumes of trading on the Toronto Stock Exchange and because of a gradual increase in housing sales: these will generate increased commission incomes.

Business investment will be slower to respond. With high vacancy rates in non-residential real estate, there will be little need for new office, retail, and industrial construction during 1992. Increasing housing starts (including single-family homes and social housing) will provide some support to the construction industry.

We are expecting a slight decline in employment during early 1992. Growth will return during the second quarter. From the trough until the end of the year, employment will grow by about 30,000, or 1.5 per cent. The rate of recovery will be slower than previous recoveries. It will, however, be sufficient to restore balance to the housing market.

Weaker migration reduces housing demand

Very strong migration was a key element in the economic and housing market expansion of the late 1980's. Net migration peaked during 1986-87 and 1987-88 at about +60,000 per year. Thereafter, it has declined, as a result of the slowing economy and Toronto's high housing costs. Our housing market forecasts are based on the assumption that during the next few years net migration will be lower than during the late 1980's. With housing values now 25 per cent lower than at the peak, they are less of a barrier to in-migration. As the economy strengthens migration will improve to 12,500 during 1991-92 and 15,000 during 1992-93.

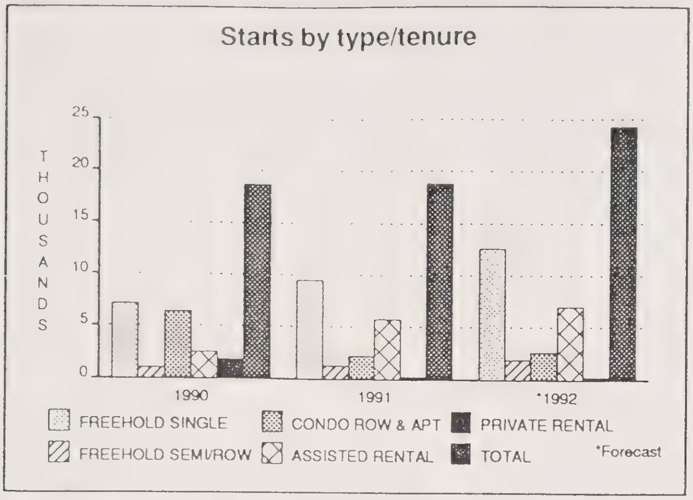
Interest rates

Interest rates are expected to decline further in Canada during the first half of 1992 as a result of low inflation and weak economic activity. Lower U.S. rates will be another factor favoring lower rates in Canada. One-year and three-year mortgage rates are expected to stand around 7.75 and 8.75 per cent respectively by the summer.

The outlook is for stable or slightly rising Canadian interest rates during the second half of 1992. Despite a weak Canadian economy and low inflation, higher U.S. rates will cause the Bank of Canada to raise rates.

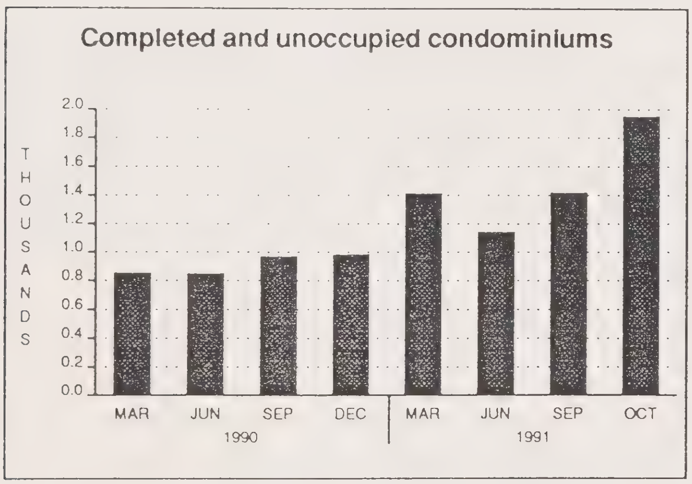
Improved affordability stimulates buyer interest

The Toronto real estate market is currently over-supplied. The sales-to-active-listings ratio is in the 13 to 14



Source: CMHC.

which are not sold immediately after completion are being sold slowly, as demand is currently weak. This is resulting in increasing inventories of unoccupied units.



Source: CMHC.

In addition to unsold new units, there is a very large supply of investor-owned apartment condominium units which could become available in the resale market. This will limit opportunities for new construction, particularly for high-rises. On the other hand, there will be more opportunities for townhouses (condominium and freehold) targeted to first-time buyers. Total condominium starts are forecast at 2,600 units, 18 per cent more than in 1991. Starts of freehold semi-detached and row units will jump by 55 per cent to 1,900 units.

Good supply of land

Lot supplies for low density housing in the Greater Toronto area are adequate to meet anticipated demand for the next one and one-half years. However, with builders reluctant to hold land inventories in today's market, few additions are being made to the supply. New land developments will have to be serviced in order to meet demands for low density lots in subsequent years. There is also a very large supply of land zoned for high rise apartments.

Resale market returns to balance

The total number of resales in 1992 is expected to decline to 36,500 compared to 38,144 in 1991. It should be noted that apart from the mini-boom last spring, real estate activity was quite slow in Toronto during the second half of 1991. This forecast for 1992 represents a steady strengthening compared to most of last year.

We anticipate that the trend of sales activity will gradually improve during the coming months. During the second quarter of the year, the sales-to-active-listings ratio will reach the 18 to 20 per cent level required for price stability and the average price will settle in a range of $205,000 to $210,000. Once price stability is achieved, the market's recovery will gather strength. But in the context of the lingering effects of the recession and 10 per cent unemployment, housing demand will be moderate and buyer caution will prevent prices from accelerating. The average price for the year is forecast at $210,000.

The resale market is currently dominated by first-time buyers. As increased numbers of sales are made during the spring and summer, there will be more opportunities for the sellers to move up into higher priced new and existing homes. This will generate a constant stream of new listings during the year, maintaining a reasonable balance between supply and demand.

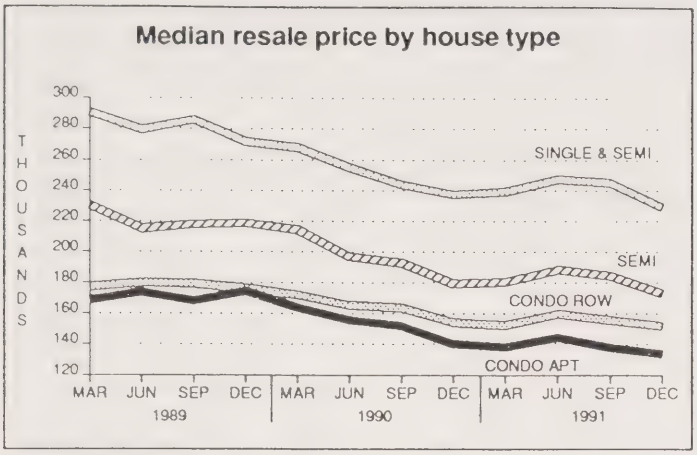
Slow growth in rental market

The vacancy rate in Toronto CMA's private rental market has increased in the past two years, especially in higher rent units. This is the result of a glut of investor-owned condominiums at the upper end of the market plus the recession. The vacancy rate was 1.8 per cent in October 1991. It is forecast to rise to 2.0 per cent this April as renters purchase their first homes. The vacancy rate will drop to 1.8 per cent in October as the recovery generates increased demand for housing.

Renovation activity slows

The value of building permits for home improvements dropped by 26 per cent in 1991, to $226 million. This was due to a combination of negative factors. Lower homebuying activity in 1990 and 1991 compared to the boom meant that there were fewer recent movers who wanted to make alterations to their homes. The recession made others more cautious about spending on renovations. Increased competition caused contractors to cut prices.

per cent range, well below the 18 to 20 per cent threshold which is required for price stability. Apart from a brief rally last spring, the market has been in decline since the peak in 1989. Median prices of homes sold through MLS* have fallen by about 25 per cent for all house types.



Source: Toronto Real Estate Board

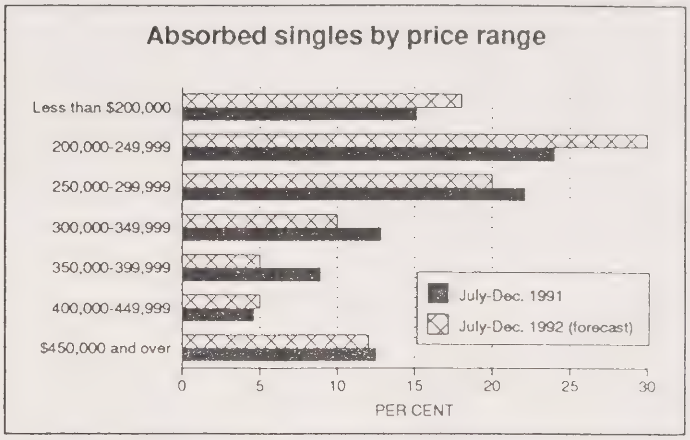
Affordability in the real estate market is at the most favourable level since mid-1986. Site traffic and inquiries indicate that there is potential for a strong spring market. In spite of this, many potential buyers have held back, because of uncertainty about the economy and a prevailing sense that there is no urgency — neither interest rates nor prices are anticipated to increase, at least not in the near term.

With large supplies to choose from, buyers are being very selective and hard-nosed about prices.

Builders compete for market share

Starts of single-family homes will improve during the year and they are forecast to increase by 33 percent, to 12,600. This is only half the level seen during 1986 and 1987. As builders vie for market share, and compete with an oversupplied resale market, price competition has been intense. In the past two years, major components of cost have been reduced, including land prices, financing costs, profit margins, overhead expenses, and materials. Concessions by trades have also reduced builders' costs.

As demand for luxury move-up homes has been reduced, builders have shifted their attentions to first-time and second-time buyers. In a marked change from previous years, we expect that about 18 to 20 per cent of new single-detached sales in 1992 will be priced under $200,000, generally in the fringe areas of the Toronto CMA. These entry level products are being successfully marketed to buyers who, two years ago, would have bought in Barrie, Burlington, or Peterborough. Singles priced from $200,000 to $249,999 will take 30 per cent of the market. Middle and upper prices ranges ($250,000 to $449,999) will drop to 40 per cent of sales, compared to 48 per cent last year. High end custom-built homes (over $450,000) will continue to account for about 10 to 12 per cent of the market in 1992.



Source: CMHC.

Single-detached activity has been concentrated in the western (Peel Region) and near-northern (York Region) parts of the Toronto CMA. This is expected to continue during 1992. Western Durham Region continues to receive a relatively small share of singles starts. Work is on-going to improve transportation links between the core of the CMA and Durham Region. However, the promise of improved accessibility has not yet resulted in increased residential development.

Single-family starts are expected to be weak in the opening months of the year, as the result of slow new home sales during late 1991. The combination of improved affordability, a strengthening job market, CMHC's decision to insure 95 per cent mortgages, plus the option to use up to $20,000 from RRSP's for downpayments will result in expanding demand as the year progresses. Values of new single family homes will stabilize, but in a very competitive market and with stable input costs, price increases are unlikely.

Social housing dominates multiple construction

Multiple dwelling unit starts in Toronto CMA will increase by more than 2,000 units, to 11,700. This will include 7,000 units of social housing, an increase of 22 per cent over 1991. Unassisted starts of multiples will increase but will continue to be very low compared to the late 1980's.

In the condominium apartment market, most of the recent absorption activity has been for units that were pre-sold in previous years. However, any condominiums

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

For 1992, we expect that renovation spending will be unchanged, as cautious consumers decide to delay home improvements.

CMHC insurance activity for new home buyers on the rise

CMHC's Mortgage Loan Insurance activity for buyers of new homes has increased significantly over the past few years. For example, approximately 1 in 20 new homes required mortgage insurance to finance their completion in 1990. In 1991, this increased to 1 in 10 new homes.

These figures are encouraging and definitely reflect a mutual commitment from builders, realtors, and lenders to working with CMHC to help house Canadians.

For further information please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

Forecast Summary — Toronto Market

	1990	1991	1992*
New Home Market			
Total Starts	18,723	18,814	24,300
Single-Detached Starts	7,067	9,459	12,600
Multiple Starts			
Homeownership	7,332	3,433	4,500
Private Rental	1,840	198	200
Assisted Rental	2,484	5,724	7,000
Completed and Unoccupied Units – December			
Single-Detached	1,055	356	300
Total	2,655	3,374	2,200
Average Monthly Absorption Rate			
Single-Detached	951	871	1,000
Total	2,402	2,154	2,100
Average Price New Absorbed Single	384,540	359,880	315,000
Renter Households That Can Afford to Buy (July-Dec.)[1]	10.7	24.4	30.5
Existing House Market			
MLS[2] Sales	26,779	38,144	36,500
Average MLS Price	255,020	234,313	210,000
Rental Market			
Vacancy Rate (Oct)	1.0	1.8	1.8
Average Rent, 2 Bedroom (Oct)	689	730	770
Forecasting Assumptions			
Mortgage Rate 3 Year	13.38	10.90	9.08
Employment (Year end)	1,901,000	1,815,000	1,825,000
Household Formation	26,000	24,000	24,500
Net Migration	17,000	12,500	15,000

Sources: Statistics Canada, Toronto Real Estate Board, and CMHC.

* Forecast by CMHC.

1 *Canadian Housing Markets*, January 1992; assumptions: average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate.

2 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

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TORONTO BUILDERS' FORECAST

Autumn 1993

Highlights

- Excellent affordability drives housing market
- First-time buyers dominate as move-up consumers remain cautious
- Homeownership starts increase in 1993 and 1994
- Total starts will fall in 1993 as assisted activity slows

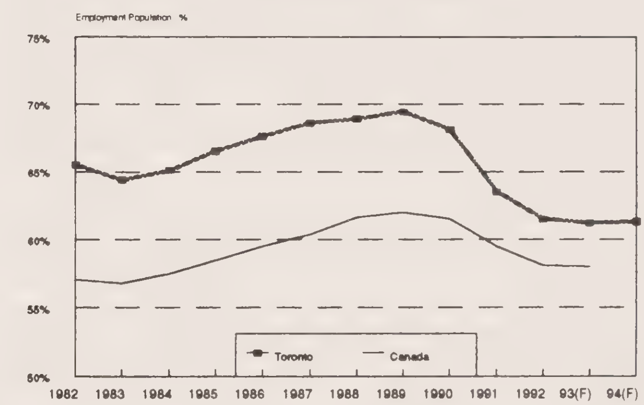
Toronto to follow Canadian recovery

During the past year, the national and provincial economies have shown signs of improvement, although they have been stop-and-go. To this point, however, statistics on Toronto's economy indicate that it is lagging behind the improvements seen in Canada and elsewhere in Ontario: retail trade, building permit values, and housing starts are all weak. More importantly, in terms of housing demand, employment has not yet shown any sustained recovery. Our assessment is that employment in the Toronto CMA has been essentially stable since the second quarter of 1991, although it has been subject to minor up-and-down fluctuations. Meanwhile, Toronto's population has continued to grow, due to high levels of in-migration. This has caused an ongoing decline in Toronto's employment-to-population ratio (the percentage of adults who have jobs). In consequence, the unemployment rate has reached double-digit territory and was 11.5% in August.

The recession in Toronto was initially centred around the manufacturing industries, which have lost 100,000 jobs since 1987. While manufacturing has benefitted recently from a lower Canadian dollar, and declining interest rates, employment in that sector is yet to improve. Furthermore, a number of larger organizations across a range of industries, including financial services, transportation, utilities, and the government sector, are reducing white-collar staff. These cuts, combined with continuing weak employment in retail trade and construction, are off-setting gains in business and personal services. Given that the Toronto economy is more dependent on large organizations than the rest of the nation, the local recovery will continue to lag the national and provincial recoveries.

After a two year period in which total employment has been flat, a gradual recovery will begin in the near future. Low interest rates are allowing Toronto's consumers and businesses to recover from the effects of the recession and improve their finances. During 1994 this will increasingly translate into more spending. Furthermore, businesses in Toronto will take advantage of opportunities to expand their exports to the U.S. and other parts of Canada. Given the mix of positive and negative factors, it is difficult to predict the timing and magnitude of employment growth in Toronto. On balance we expect that between now and the end of 1994 employment will expand at the same rate as the population, at an annual rate of 1.5%. While this will not have much effect on the unemployment rate or the employment-to-population ratio, it will result in the creation of 40,000 to 50,000 jobs, bringing employment to 1.82 million by the end of 1994 compared to the 1.77 million recorded this August.

Percentage of Adults with Jobs
Toronto versus Canada



Source: Statistics Canada and CMHC forecast.

Demographics dictate slow household growth

Toronto has, traditionally, enjoyed a stronger job market than the rest of Canada, as the employment-to-population ratio was 8 percentage points higher. This made Toronto attractive for job seekers from other parts of Canada. The employment-to-population gap, however, has fallen to only 3 percentage points as a result of the economic recession. The reduction in employment opportunities has reduced the number of Canadians moving to Toronto. On the other hand, the reduction in migration by Canadians is off-set by strong international immigration to Toronto. As a result, net migration is forecast to be 32,000 in 1993 and 35,000 in 1994, only 60% of the level observed in the late 1980's.

With immigration fueling population growth, household formation and housing demand will remain weak for the next few years. Because immigrants often arrive with limited financial re-

sources, they tend to have low housing demands for some years after their arrival: they have lower household formation rates (they are likely to "double-up") and they are more likely to rent compared to those who are more established. During the second half of the decade, total housing demand will increase and it will shift towards homeownership, as the population of recent immigrants becomes better established financially.

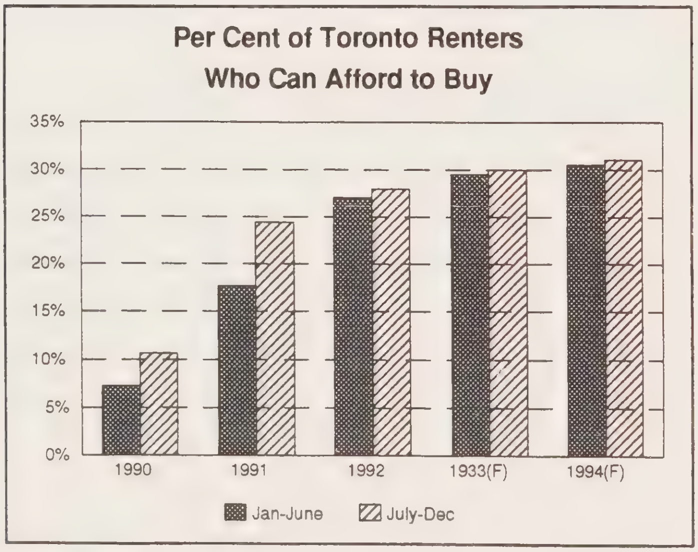
Household formation slowed during 1990 to 1993, as a result of the weak job market. As employment begins its expansion, household formation will take the first steps to recovery during 1994, rising modestly to 18,000.

Interest rates continue to favor home buyers

Mortgage rates are expected to rise marginally this fall and in 1994 as economic activity and credit demand gain momentum. The one-year rate is expected to average 7.00% in 1994 while the five-year rate is expected to remain around its current level of 8.75%. In spite of the increase expected in 1994, mortgage rates for 1993 and 1994 are only slightly higher than the lows experienced last fall. (In September 1992, the five-year rate reached a 26 year low of 8.50%.) These low mortgage rates will continue to support the recovery of housing demand.

Affordability drives the market

The combination of lower house prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now equal to or better than for any other year during the past two decades. It is now better than it was during the previous housing market recovery, which occurred during 1983 to 1985. CMHC's affordability measure estimates the percentage of renters aged 20 to 44 who can afford to buy a home. In Toronto, the percentage has been rising steadily. In 1990 only 7% of those renters could afford to buy. By the first half of 1993 it reached 29.5%. It is forecast at 30% for the second half of this year and 31% by the end of 1994.



Source: CMHC.

In 1990, an income of $82,000 was required to buy the average starter home in Toronto, and cover principal, interest, taxes, and energy costs. Now, with lower prices and interest rates, the income required to buy an average starter home (priced at $160,000) is approximately $55,000. To buy a town house costing between $120,000 to $140,000 requires an income of $40,000 to $47,000. This sharp improvement in affordability has enabled increasing numbers of first-time buyers to achieve homeownership, especially now that CMHC insures 95% mortgages.

Current strength in the resale market

During the summer of 1993, the Toronto real estate market has been very strong, with MLS[1] sales reaching a seasonally-adjusted annual rate of over 50,000 units, which is a very strong performance compared to the 1992 total of 41,703. This strength is a short-term wave resulting from the declines in mortgage rates that occurred in March and July. As in the past, this wave will dissipate after a few months, during this fall. Sales for 1993 will total 39,500 units. This will be a 5% reduction from 1992, but it will be the sixth best year on record. The average MLS price is forecast at $210,000, a 2% reduction from the $214,971 recorded in 1992.

For 1994, with interest rates expected to be flat or increase marginally, affordability will not show the dramatic improvements that have driven the housing market in the past. Thus, housing demand will be determined by the strength of the economy. With modest growth in employment, MLS sales are forecast to increase to 43,000 units. The average price will increase modestly to $212,000. Values for most homes will be unchanged - the increase in the average will be due to an increased share of move-up buying.

New construction offers competition

While the resale market was very active during most of 1992, the new homes market did not fare as well. The share of new home sales compared to total activity (new plus resale homes) fell to 20% in 1992 and 1993, compared to an average of 35% during the past decade.

During late 1992 and so far in 1993, starter homes priced under $200,000 have accounted for over 60% of all activity on the resale market. Home builders, on the other hand, have tended to target move-up buyers, although there are relatively few move-up buyers in the market. Builders are increasingly turning their attentions to first-time buyers and are offering more affordable single-detached homes and lower cost attached housing options. With the shift to more affordable housing, the average price of a single-detached home at absorption has fallen sharply from the 1992 average of $322,677. For 1993, the average price of a single-detached home is forecast to fall to $300,000, before rising to $315,000 in 1994 as move-up activity increases next year.

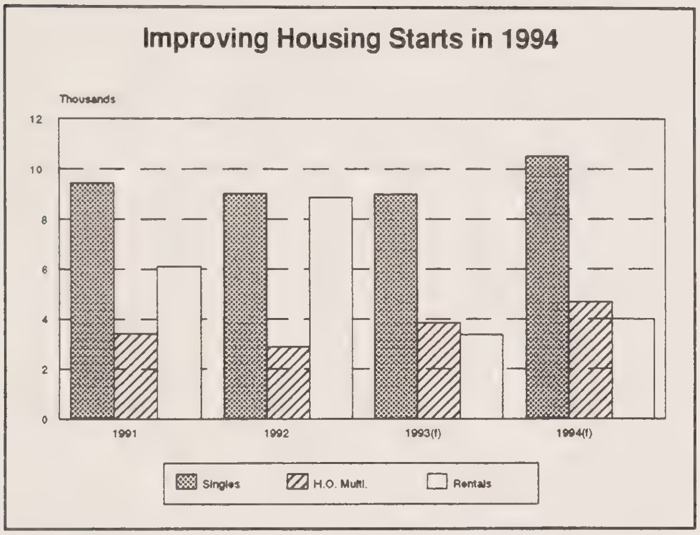
The spike in interest rates that occurred last fall caused a slow start to new home sales in early 1993. As interest rates approached a 25-year low this summer, new home sales began to show improvement. With interest rates expected to remain near their current level, new home sales will continue to improve, reaching almost 11,000 for the year. This represents a 9% increase from 1992. In 1994, a recovering economy and stronger resale market will increase demand by move-up buyers, the traditional consumers of new homes. The increased move-up activity will lead to 12,500 new home sales next year.

New home construction set for improvement

The improvement in new home sales is resulting in an increase in starts of homeownership dwellings, which are forecast to reach 12,850 units in 1993, up 8% from the 1992 total of

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

11,929. This total includes 9,000 single-detached units, unchanged from 1993, and 3,850 attached homeownership units (semi-detached, row, and condominium apartment). Private sector rental starts are forecast to be 350 units. Despite the increase in ownership activity, total housing starts are forecast to fall to 16,200 this year, down 24 per cent from 1992. The drop can be attributed to a sharp slowdown in assisted activity, which will fall by 64 per cent in 1993 to 3,000 units. In 1994, an improving new home market will lead to an increase in starts to 19,200. In the homeownership market, single-detached starts are expected to increase to 10,500, and starts of attached ownership units will rise to 4,700 next year. In the rental market, private rental starts are forecast to fall slightly to 300 units, while assisted rental activity will increase to 3,700 units in 1994.



Source: CMHC.

Activity in the condominium market will increase in 1993, as homebuilders look for affordable housing options. For the year, condominium starts are forecast to increase to 2,400 units, nearly double the 1,218 units recorded in 1992. The improvement in condominium activity will be the result of an increase in townhome and low-rise apartment starts. The high-rise apartment condominium market continues to be oversupplied as investor-owned and builder-owned rental units represent a steady supply of listings in the market. Results of our 1993 Condominium Survey show that the number of rental condominiums dropped by almost 2,000 since 1992. As first-time demand continues into 1994, condominium starts are forecast to increase to 3,000 units next year. As in 1993, this will consist mainly of low-rise projects.

A portion of the demand for new housing has been satisfied by sales of previously unsold, standing inventory in 1993. As a result, the inventory of homeownership units, has dropped from 3,053 as of August 1992 to 1,705 as of August 1993. Reductions have occurred for single-detached units which dropped from 546 in August 1992 to 312 in August 1993, while the inventory of condominium apartments units fell from 2,330 to 1,257. Semi-detached and townhomes, both freehold and condominium, also showed a fall in standing inventories from 114 in 1992 to 73 in 1993. The drop in inventories will provide builders with greater opportunity to meet demand with pre-selling. While new home sales will increase by 1,500 units next year, starts of homeownership units will increase by 2,350, as fewer home sales will be out of standing inventory.

Variation across the Toronto market

The critical factor for success in the new home market is the availability of zoned, serviced land, within reasonable distances from employment centres, at prices which allow for affordable housing. On that score, the most successful areas have been to the west, in Peel and Halton regions, which have accounted for just over one-half of all homeownership starts this year. York region, which tends to focus on the move-up buyers, has accounted for about one-third of all homeownership starts. As the strongest demand will come from first-time buyers, the west will continue to lead in 1994.

Smaller lots still in high demand

The supply of building lots in the Toronto CMA is sufficient to meet demand for the remainder of 1993, and much of 1994. At the upper-end, there is an ample supply of larger (50 front feet and greater) lots as demand for those lots has been limited. However, as builders have shifted their attentions to the first-time buyers market, the supply of smaller, affordable lots has tightened. To capitalize on sales opportunities for 1994, the supply of smaller lots must be expanded.

Demand for rentals remains soft

High unemployment among younger age groups and the shifting of renters into homeownership are combining to weaken the demand for rental housing. The slowdown of home sales in early 1993 reduced tenure shifting, and led to a slight fall in the vacancy rate, to 2.1 per cent in April 1993. Since that time, however, housing activity has been strong, with more renters buying homes. As the high unemployment rate has reduced household formation, the shifting of renters to homeownership will cause the vacancy rate to increase to 2.4 per cent in October 1993. These trends will continue into 1994, and the vacancy rate will increase to 2.6 per cent next year.

Renovation market

Activity in the renovation market has dropped since early 1989, along with the fall in home sales. Traditionally, homebuyers undertake renovation projects within 2 to 3 years after moving. As fewer people have moved in the past 3 years, the number of renovation projects has fallen. The dominance of first-time buyers in the housing market will also continue to limit the recovery in the renovation market. Generally, first-time buyers spend less on renovation projects than move-up buyers. As a result, building permits for renovations are expected to fall from the 1992 level of $201 million to $190 million in 1993. As consumer confidence begins to return next year, larger renovation projects will be undertaken, raising the value of building permits to $205 million in 1994.

Forecast Summary Toronto Market

	1992	1993*	1994*
New Home Market			
Total Starts	20,770	16,200	19,200
Homeownership Starts	11,929	12,850	15,200
Single-Detached	9,027	9,000	10,500
Semi-Detached/Row	2,294	2,770	3,350
Apartment Condo	608	1,080	1,350
Rental Starts			
Private Rental	589	350	300
Assisted Rental	8,252	3,000	3,700
Completed and Unoccupied Units-December			
Single-Detached	423	300	250
Total	2,985	2,200	2,100
Average Monthly Absorption Rate			
Single-Detached	846	775	825
Total	1,877	1,650	1,450
Average Price New Absorbed Single	$322,677	$300,000	$315,000
Renter Households That Can Afford to Buy (July-December)[1]	28%	30%	31%
Existing House Market			
MLS[2] Sales	41,703	39,500	43,000
Average MLS Price	$214,971	$210,000	$212,000
Rental Market			
Vacancy Rate (Oct)	2.2%	2.4%	2.6%
Average Rent, 2 Bedroom (Oct)	$754	$770	$785
Forecasting Assumptions			
Mortgage Rate 3 Year	8.95%	8.13%	8.00%
Employment (Year end)	1,761,000	1,780,000	1,820,000
Household Formation	19,000	16,000	18,000
Net Migration	34,000	32,000	35,000

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.
* Forecast by CMHC
1 Canadian Housing Markets, third quarter 1993; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.
2 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

CMHC's First Home Loan program - an added boost to the market

The improved affordability of homeownership is being enhanced by CMHC's First Home Loan Insurance Program (FHLI), which allows homebuyers to use a 5% downpayment. Since its introduction in February 1992, over 12,500 homebuyers have used the program in the Toronto area, constituting over 15% of total sales of new and resale homes. As many of these homebuyers could not have bought without the 5% downpayment program, FHLI has been successful at increasing the accessibility of homeownership in the Toronto CMA. In a national survey of FHLI buyers, nearly 70% stated that they could not have purchased this year without the CMHC program.

The combination of improved affordability and CMHC's 5% down program is providing homebuyers with an excellent opportunity through the remainder of 1993.

For further information, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

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TORONTO BUILDERS' FORECAST

Spring 1993

Highlights

- Mixed signals from the Toronto economy
- First-time buyers dominate Toronto housing market
- Potential move-up buyers are cautious
- Builders shift emphasis to starter homes
- High-rise condo market will remain over-supplied.

Goods-producing industries start to pick up

The Toronto economy entered a sharp recession in the spring of 1990. Since April 1990, the level of employment in the Toronto CMA has fallen by 200,000 jobs, or more than 10 per cent. The manufacturing sector was hit very hard by the recession, as consumers and businesses slashed their spending. During the second half of 1992, Canadian manufacturing activity stabilized and then began to turn around. This resulted from lower interest rates and the reduced value of the Canadian dollar. Lower interest rates have reduced debt servicing costs for businesses and consumers, and allowed them more discretion to spend and to invest. The lower dollar has supported Canadian exports to the United States at the same time as it discouraged cross-border shopping. At long last, it can be stated with some confidence that the Toronto manufacturing sector is on the mend. Manufacturing employment is forecast to expand during 1993. But, the recovery is starting from a low level and it will be quite some time before employment returns to the previous peak.

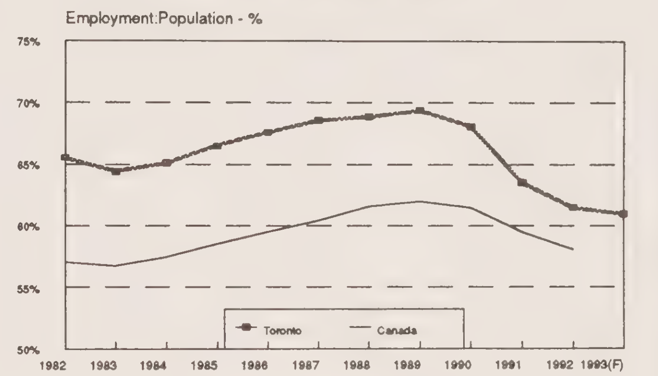
The construction industry has also suffered a sharp downturn. Recovery is not yet in sight for construction, as there is a substantial over-supply in non-residential real estate, and the residential sector has seen only modest gains. However, investments in transportation infrastructure, which have been announced recently, will begin to generate construction jobs later this year.

Uncertainty in service industries

During the past three years, total employment in Toronto's service industries has been stable, in contrast to the declines in goods industries. During 1993, there will be some restructuring in services, which will result in some job losses in the Toronto area. These will occur in financial services, transportation, utilities, and public administration. The wholesale and retail trade industries, on the other hand, will see modest growth as consumer spending continues its gradual recovery.

The combination of a gradual recovery in the goods-producing sector plus uncertainty in service industries makes it difficult to predict the timing and magnitude of employment growth in Toronto. In balance, we expect that by the end of 1993 employment will be 1.78 million, 1 per cent higher than it was at the start of the year.

Percentage of Adults with Jobs
Toronto versus Canada



Source: Statistics Canada and CMHC forecast.

The state of the local economy is often measured through the level of employment or the unemployment rate. Another revealing measurement is the ratio of employment to the adult population. At Toronto's economic peak in 1989, that ratio averaged 69 per cent. By 1992, it had fallen to an average of 61.5 per cent. The ratio is expected to be stable during 1993 at 61 per cent.

Demographics dictate slow household growth

Historically, Toronto's employment-to-population ratio has been 8 percentage points higher than the rate for all of Canada. This has made Toronto very attractive as a destination for job seekers. During the recession, Toronto has retained an advantage, but its employment to population ratio is now just 3 percentage points above the Canada rate. This reduction in employment opportunities has caused a sharp downturn in the number of other Canadians who are moving into Toronto. On the other hand, immigration from other countries has been increasing. The Toronto CMA is experiencing a level of net migration much lower than during the

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late 1980's. Net migration is forecast to be 35,000 this year, or only 60 per cent of the level achieved during the boom.

At this time, population growth in Toronto is being driven primarily by immigration. Because immigrants often arrive with limited financial resources, they tend to have low housing demands for some years after their arrival: they have lower household formation rates (they are likely to "double-up") and they are more likely to rent compared to the Canadian-born. Because population growth is mainly due to immigration, household formation and total housing demand in Toronto will remain weak for the next few years. During the second half of the decade, total housing demand will increase, for both homeownership and rental, as the population of recent immigrants becomes better established financially.

Household formation slowed during 1991 and 1992, as a result of job losses. As the job market stabilizes, household formation will take the first steps to recovery during 1993, rising modestly to 21,000.

Interest rates

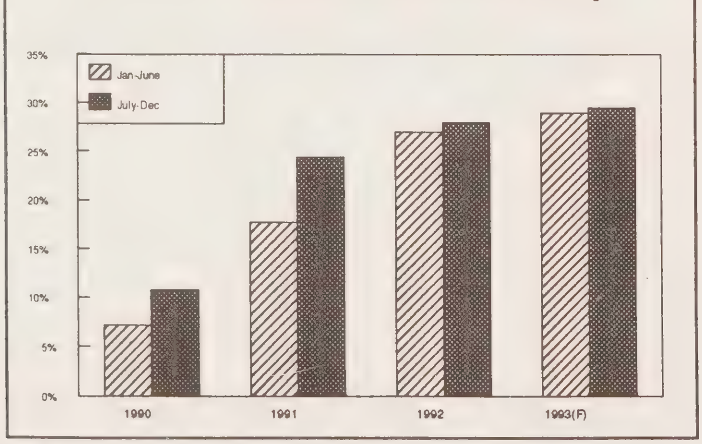
The rally of the Canadian dollar against the U.S. dollar paved the way for the recent declines in mortgage rates. Economic conditions will continue to favour additional declines during 1993. The economic recovery is slow and inflation is expected to remain subdued. Canadian mortgage rates could potentially test the two-decade lows reached last September (6.25 per cent for one-year terms and 8.50 per cent for five-year terms). The timing and magnitude of declines in rates will depend upon the behaviour of the Canadian dollar.

First-time buyers drive the market

Since the Toronto housing market peaked in 1989, median prices of homes sold through MLS[1] have fallen by one-quarter for all house types. The combination of lower house prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now as good or better than it was during the previous housing market recovery, which occurred during 1983 to 1985. According to CMHC's affordability measure, the percentage of renters who can afford to buy has been rising steadily and reached 27 per cent in the first half of 1992 and 28 per cent in the second half. In 1990, in comparison, only 7 per cent of renters could afford to buy. The affordability measure will continue to improve during 1993, and is forecast to reach 29.5 per cent during the second half.

This sharp improvement in affordability has enabled increasing numbers of first-time buyers to achieve homeownership, especially now that CMHC insures 95 per cent mortgages. Thus, the low end of the housing market has experienced strong activity and prices have stabilized. On the other hand, a combination of factors is causing potential move-up buyers to be cautious. These include: the extent of job losses that have occurred, a residual of uncertainty about the economy, losses of homeowner equity during the past three years, and the prevailing sense that prices are unlikely to increase for some time. The predominant belief is that there is no urgency to buy. In consequence, the housing market is over-supplied with more-expensive homes. In this environment, move-up buying will increase only modestly during the year - robust recovery depends upon definite signs that employment is on a sustained growth path, which would improve consumer confidence.

Per cent of renters who can afford to buy



Source: CMHC.

A pause in the resale market

During most of 1992, the trend of MLS sales steadily increased, due to improving affordability. By the summer the trend reached a very strong seasonally-adjusted 4,000 units. However, in the fall of 1992 a spike in mortgage rates and a slew of negative announcements concerning major corporations adversely affected consumer confidence and caused many potential buyers to become cautious. The trend of sales activity has dropped sharply to 2,400 units. Since interest rates are expected to be stable or declining in the coming months, home sales should soon start to improve again and the housing market will move towards balance during the spring and summer.

The total number of MLS resales in 1993 is forecast at 39,500, down 5 per cent from 41,703 in 1992. This will be the sixth best year on record. The average MLS price is forecast at $210,000, a 2 per cent reduction from the $214,971 recorded in 1992. However, it represents a modest firming compared to the short-term trend, which has averaged $208,000 during the past three months. A modest increase in move-up buying later this year will bolster the average price.

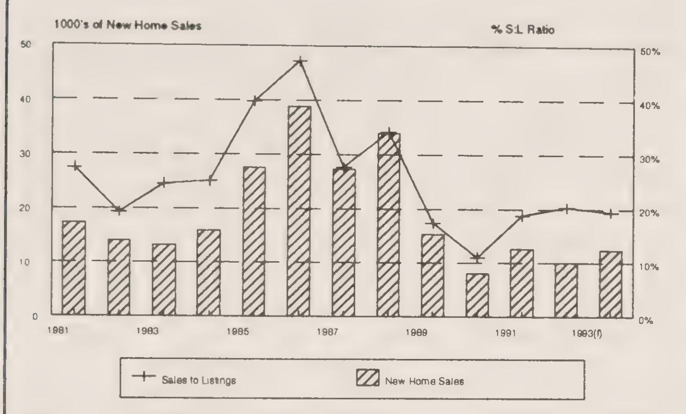
Opportunities for builders

Sales of new homes are determined largely by the state of the resale market. When the resale market tightens - indicated by a rising sales-to-listings ratio - demand increases for new homes. However, during 1992, the resale market tightened but new housing sales did not respond in the traditional way. This occurred because housing demand was shifting away from move-up homes towards modest starter homes. The home building industry was not able to adjust its product offerings quickly enough to take full advantage of that opportunity last year. New home sales, as reported by the Greater Toronto Home Builders Association, reached only 10,091 units.

During late 1992 and early 1993, starter homes priced under $200,000 have accounted for two-thirds of all activity on the resale market. In recent months, builders have increasingly turned their attentions to first-time buyers and are offer-

1 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.)

New Home Sales Versus the Sales to Listings Ratio



Source: TREB, GTHBA, and CMHC

ing more single-detached homes priced under $200,000 and attached housing (semi-detached and rows) priced from $130,000 and up.

With move-up demand expected to increase only modestly during 1993, substantial sales growth can be achieved only by catering to first-time buyers. Assuming that builders offer sufficient product at the low end, CMHC forecasts that new home sales will reach 12,500 in 1993, a 24 per cent increase over 1992. The trend of activity will increase steadily during the year.

Total housing starts will increase by only 3 per cent in 1993, to 21,300 units versus 20,770 in 1992. The private sector component of starts will increase by 10 per cent to 13,800 units, while assisted starts will fall by 9 per cent to 7,500 units. Most of the growth in the private sector will be accounted for by attached housing forms, especially row housing. Starts of single detached housing will increase at a slower rate of 5 per cent. Because an increased share of starts will be low end product in 1993, the average price of single-detached units will fall by 10 per cent, from $322,678 to $290,000.

Toronto's high-rise condominium apartment market continues to be over-built. Inventories are slowly being sold, but the number of units that have never been occupied remains high, at almost 1,800 units as of the end of February. In addition, there is a very large potential supply of investor-owned units which could become available in the resale market. Finally, improved affordability is encouraging many condominium owner-occupants to move to ground-oriented housing. As a result, the high-rise condominium market will remain over-supplied for all of 1993. Condominium apartment starts are forecast at 1,000 units for 1993. Most of these will be stacked (low-rise) projects.

Variations across the Toronto market

Within the Toronto market some areas are performing better than others. Western areas (Oakville, Mississauga, and Brampton) will continue to lead during 1993. Their large supplies of moderate-cost housing, good transportation links, and improving job markets make them attractive to first-time buyers compared to other areas. On the other hand, recovery in the east and north depends very much on the establishment of stability and confidence in the automotive sector.

Need for small building lots

The total supply of building lots in Toronto CMA is sufficient to satisfy demand for 1993. There is an over-supply of large lots (50 front feet and larger). Supplies of smaller lots (30 feet or less) are tighter. As the economy recovers and immigrants become better established financially, first-time buyers will continue to dominate housing demand in the Toronto area for the next few years. Thus, if builders are to capitalize on opportunities in the starter home market, the supply of competitively-priced, smaller lots (25 to 30 feet) must soon be expanded.

Soft demand for rentals

Demand for rental housing is currently constrained as the result of weak household growth, employment losses among younger age groups, doubling-up, and the movement of tenants to homeownership. For 1993, demand for rental housing is forecast to grow by 3,000 units. Demand will recover gradually in coming years and average 8,000 units per year during the second half of the decade. During the boom of the late 1980's the apartment vacancy rate reached a low of 0.1 per cent. Subsequently, the rental market eased considerably during the recession and the vacancy rate reached 2.2 per cent by October 1992. During 1993 rental housing completions will exceed demand and the vacancy rate is forecast to rise to 2.9 per cent by October 1993.

Under the pressure of rising vacancy rates, rent increases have moderated. For 1993, rents are forecast to increase by 2 per cent on average. Increases will be greatest in the low and moderate parts of the rental spectrum. At the upper end of the distribution, rents will be stable, although some rent reductions are possible, particularly for rental products whose rents are close to the costs of homeownership.

Renovation market

Most home renovations are made within two years of moving. Because the Toronto housing market slowdown began in early 1989, renovation activity has also slowed. The recovery of home sales during 1992 and 1993 will result in more renovation activity. However, first-time buyers are dominating the housing market. These buyers generally are not prepared to spend as much on renovation as were the move-up buyers who renovated during the boom. Thus, renovation jobs will on average be smaller than in previous years.

The value of building permits issued for home improvements totalled $201 million in 1992, a drop of 38 per cent since the peak in 1989. In 1993, activity will expand marginally to $210 million.

Forecast Summary - Toronto Market

	1991	1992	1993*
New Home Market			
Total Starts	18,814	20,770	21,300
Homeownership Starts			
Single-Detached	9,459	9,027	9,500
Semi-Detached/Row	1,859	2,294	2,800
Apartment Condo	1,574	608	1000
Rental Starts			
Private Rental	198	589	500
Assisted Rental	5,724	8,252	7,500
Completed and Unoccupied Units - December			
Single-Detached	356	423	400
Total	3,374	2,985	2,300
Average Monthly Absorption Rate			
Single-Detached	871	753	775
Total	2,154	1,754	1,850
Average Price New Absorbed Single	$359,880	$322,678	$290,000
Renter Households That Can Afford to Buy (July-December)[1]	24.4%	28.0%	29.5%
Existing House Market			
MLS Sales[2]	38,144	41,703	39,500
Average MLS Price	$234,313	$214,970	$210,000
Rental Market			
Vacancy Rate (Oct)	1.8%	2.2%	2.9%
Average Rent, 2 Bedroom (Oct)	$730	$754	$770
Forecasting Assumptions			
Mortgage Rate 3 Year	10.90%	8.65%	8.44%
Employment (Year end)	1,815,000	1,761,000	1,780,000
Household Formation	20,000	19,000	21,000
Net Migration	25,000	28,000	36,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC
* Forecast by CMHC
1 Canadian Housing Markets, July 1992; assumptions: average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate;
2 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC's First Home Loan program a resounding success

When it was introduced in early 1992, it was anticipated that 10,000 households across Canada would use CMHC's new program during 1992 to buy their first home with only a 5 per cent downpayment. Nationally, that figure was surpassed during the first few months. In just the Toronto CMA, 6,900 households used the program in 1992. Approximately 90 per cent of those using the program purchased resale homes. Clients of the First Home Loan Insurance Program have Gross Debt Service Ratios (GDS) similar to households which have higher downpayments - the average GDS ratio in Toronto was 27 per cent. This shows that many households can afford the monthly costs of owning a home, but accumulating the down payment can be difficult.

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TORONTO BUILDERS' FORECAST

Spring 1996

> ### Synopsis
> - The Toronto real estate market has started a new wave of stronger sales, as excellent affordability is drawing buyers into the market.
> - The Toronto economy has been in recovery since late 1994. Spending cuts by government are limiting prospects for job growth in 1996.
> - In a slowing economy, the housing market will likely weaken in the second half of this year.
> - For 1996, CMHC forecasts 14,400 new home sales. Builders can meet this forecast by offering more low-priced singles, to appeal to first-time buyers.
> - Housing starts will total 16,100, down marginally from 16,325 in 1995. Assisted rental starts will fall, but homeownership activity will expand.
> - The typical first-time buyer has an income of $50,000 to $70,000 and is looking for a single-detached home priced at $160,000 to $175,000. Any growth in new homes activity will come from this sub-market.

Economic recovery - but an uncertain outlook

Toronto's economy is showing definite signs of recovery, as robust job creation began late in 1994. After 5 years of lingering recession, a very encouraging 80,000-90,000 jobs have been created since September 1994. With these improvements, however, Toronto still has not regained all of the losses suffered during the recession. About 175,000 jobs were lost during the downturn. Three-quarters of these losses have been regained.

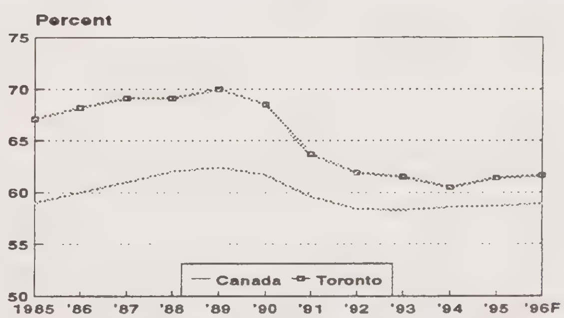
The recovery has been centred mainly in manufacturing and financial services. Consumer spending has also increased, but this has not yet resulted in more jobs in retail trade. Employment has been falling in construction and the public sector.

For 1996, the job outlook is mixed. Private sector employment will expand, especially in goods-producing industries, as the Canadian and US economies respond to lower interest rates. However, the Toronto CMA economy depends mainly on service industries (government, finance, retail trade, professional services, etc.). Growth prospects are more modest in service industries. Most importantly,the government sector will see substantial job losses. With this mix of positives and negatives, the outcome is difficult to call, but it is very likely that there will be little or no additional job growth this year.

Slower economy reduces population growth

Our best indicator of the local economy is the percentage of adults who have jobs. This shows that during the 1980's Toronto had one of the strongest job markets in the country. Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The ratio fell sharply in Toronto during the recession. The rate for all of Canada also fell, but not as sharply. As a result Toronto's advantage is now only 2 or 3 points.

Percentage of Adults with Jobs
Toronto Versus Canada



Source: Statistics Canada and CMHC forecast

During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration from other parts of the country. Housing demand was very strong, to accommodate the expanding population. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's.

The rate of population growth has slowed. More importantly, the nature of that growth has changed. This is a key factor in the Toronto housing market.

Currently, the largest component of growth is immigration from other countries, instead of movement from other parts of Canada. Immigrants frequently arrive with limited resources. They often form large household groups, pooling their incomes and sharing costs. This means that new immigrants have lower

housing demands than other Canadians, and they are most likely to live in rental accommodation rather than in homeownership.

Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has been weaker in the 1990's, because of the recession, but also because of the changed nature of population growth. CMHC estimates that household formation is currently about 18,000 per year.

Interest rates

Employment is the key factor that determines long-term demand for housing, but in the short-term mortgage rates are most important. They influence consumers' choices between owning versus renting.

Despite recent volatility in financial markets, there are good prospects for additional cuts in mortgage rates, due to a weak economy and low inflation. The one-year rate is expected to stand around 6.00-6.50% by the end of the summer while the five year rate should be in the range of 7.00-7.75%. Rates should start rising at the end of 1996.

Consumers in control

The mortgage market is extremely competitive. Consumers have leverage to negotiate mortgage rates. During the opening weeks of 1996, borrowers in Toronto who choose 5 year terms are negotiating rates 40 to 50 basis points below the rates officially quoted by lenders. They are saving an average of $40-50 per month, based on a $150,000 mortgage.

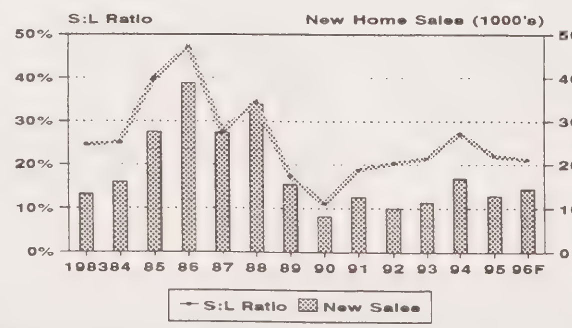
In the new homes market, builders can gain a competitive edge by obtaining equivalent rate discounts (or better) for their purchasers, and offering guaranteed interest rates.

Good analysis of the new homes market starts with resales!

Experience shows that the single greatest factor that affects new home sales is the state of the resale market. New home sales are strongest when the resale market is tight, as indicated by a high sales-to-listings ratio. When the listings ratio rises, buyers have fewer choices in the resale market, and they also have less ability to bargain on price. When the ratio is quite high (above 30%), prices tend to rise in the resale market, which gives buyers added incentive to look at new homes. But, when the ratio is low (below 18-20%), prices of resales tend to fall, which discourages buyers from choosing new homes.

The following graphic shows the relationship. The number of new home sales (shown as a bar) was pushed up during 1985-88 by a very high listings-ratio (shown as a line). During the 1990's, a low ratio has resulted in much slower sales. In 1994,

New Home Sales Influenced by State of Resale Market



Source: GTHBA/TREB/CMHC

however, the resale market tightened, allowing builders to increase sales. In 1995, there was more slack in the resale market, which led to slower sales of new homes. In the long-term, each 1 percentage point increase in the sales-to-listings ratio results in about 700-800 additional new home sales per year.

A brief discussion of the resale market and its outlook is needed, to set the stage for the forecast of new homes activity.

During 1991 to 1995, there were four periods of significant reductions in mortgage interest rates. Each of these produced an improvement in affordability and stimulated a strong wave of home sales. During late 1995 and early 1996, the fourth wave lost its momentum. As of February this year, it appears that a fifth wave has just begun, as sales surged in both the resale and new homes market. Expressed as a "seasonally adjusted annual rate" or "SAAR", February's resales reached an annual rate of 46,000 - above the 1995 total of 39,273. New home sales also improved, to 16,400 SAAR, well above the 1995 level of 12,857.

Activity has responded to falling mortgage rates, but that response was unusually slow. This indicates that consumer confidence is rocky. This new wave of sales is likely to be less dramatic than previous ones - it is unlikely to last as long, or result in as many sales as the wave seen in 1994.

New homes follow resales

The all-important sales-to-listings ratio has remained in the middle of the 20-30% "Balanced Market" range, indicating stable prices, and giving buyers moderate encouragement to look at new homes. With stronger resales this spring, the resale market is becoming tighter. We expect that the sales-to-listings ratio will be in the 25-30% range during the spring, creating more opportunities for builders, and translating into robust new home sales. But, because consumer confidence is weak, resales will slow by mid-year, and the sales-to-listings ratio will fall to the 20-25% range, or lower, in the second half of the year. New home sales will weaken.

Combining a good spring market and a slowdown later in the year, CMHC is forecasting that the sales-to-listings ratio in 1996 will average only 21.1%, down from 22.5% in 1995. Yet, we are forecasting 14,400 sales in 1996, up from 1995's 12,857. Why is this - it seems inconsistent with our statements about the importance of the sales-to-listings ratio? CMHC believes that there are new market opportunities, that will be discovered and exploited by builders. The largest market segment is first-time buyers - and builders can capture more of that market!

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first-time buyers - 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. At today's mortgage rates, an income of $40,000 to $45,000 is required to buy a modest starter home in Toronto. This is much better than in the late 1980's, when the required income was $75,000 to $80,000. This change has made homeownership accessible for thousands of renters.

Most of these first-time buyers are meeting their needs in the resale market. Data from CMHC's 5% down-payment program shows that 82% of our clients are purchasing existing homes - builders are capturing only an 18% share of this critical market!

Industry is challenged to provide products that meet the needs of first-time buyers. Builders have been successful with low-end attached homes including town-homes and low-rise apartments that appeal to low-income first-time buyers. **There is an untapped mid-range market, from buyers whose incomes**

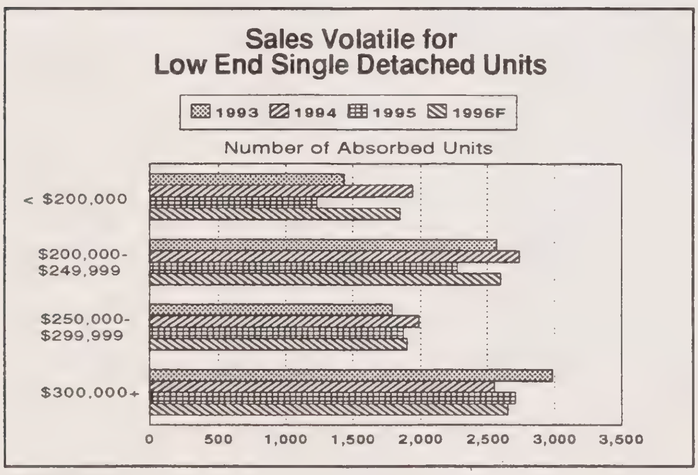
are between $60,000 to $70,000. These buyers are typically finding single-detached homes in the resale market, priced at about $175,000. Another price point is $160,000, for buyers with incomes from $50,000 to $60,000. There is a lack of competing product in the new homes market - these are the largest segments of today's housing market and they represent the best opportunities for builders in 1996!

CMHC identified these opportunities at our 1995 Housing Outlook Conference. Already, there are signs that builders are responding to the challenge. Builders know that today's buyers are very careful and thoroughly research their options before making commitments. Thus, builders need to research the resale market, talk to buyers about their priorities and expectations, and offer products with value comparable to resales.

For many first-time buyers, the rental income from an "accessory suite" can make homebuying feasible. This option is readily available in the resale market. Builders might examine basement suites as an extra inducement to first-time buyers. With a falling vacancy rate in Toronto's rental market, there is a need for more basement apartments, and owners are finding it easier to attract good tenants.

Most builders are chasing the move-up buyer, especially the high-end market (single-detached homes priced from $300,000 and up). This segment has been stable for three years, at less than 3,000 units per year, as shown in the following graphic. The upper end market is expected to remain static in 1996.

Buyers who made a first-time purchase after mid-1992 are in the best position to make a move up. Builders could see more demand from second-time buyers in 1996 and beyond. This potential market will chiefly be looking for mid-priced singles, priced under $250,000.



Source: CMHC.

The graphic above demonstrates that the move-up market has been stable for three years. But, there has been volatility for singles priced under $200,000. The message is - "the first-time buyer makes or breaks the market". **For any builder who wants to grow in 1996, that growth will be for homes priced under $250,000, and especially under $200,000.**

A final note - we do a lot of technical work on our forecasts. Our models tell us that there should be only 7,500-7,800 freehold sales in 1996. Yet, we are forecasting 9,400 freehold sales, up from 8,390 last year. **We believe that in 1996 builders will grab a big piece of the first-time buyer market!**

Demand for affordable condos

The new condos market has been steadily gathering strength in the 1990s, although sales dropped slightly in 1995. The underlying fundamentals for the condo market are very favourable - good affordability is allowing thousands of renters to jump to ownership, and competition from standing inventory has been reduced. However, selling out new construction condos is difficult, perhaps because of the long lag times between purchase versus occupancy.

Condo apartments represent two poles in the housing market. At the low end, they are the first rung on the ownership ladder - these buyers are sensitive to pricing, delivery dates, and condo fees. Due to good affordability, this demand should expand during 1996, if developers find the right formulas. Our data tell us that the most important price points for condo apartments are $85,000 for buyers with incomes under $40,000, followed by $100,000 for buyers with incomes from $40,000 to $50,000.

Demand for upper end condos will be flat, or could even fall. The Asian market is believed to be tapering off.

Based on the potential for the low end market, CMHC expects 5,000 new condo sales in 1996, up from 1995's 4,467.

Housing starts follow sales

For most new homes, an actual "housing start" occurs 4 to 9 months after the sale. Because sales were slow late in 1995, housing starts are now easing, and will probably be slow in the spring. But, with sales now improving, higher construction volumes are expected for the summer and fall.

If builders offer more low end singles and succeed in the first-time buyer market, we will see a large jump in starts of single-detached homes this year. On this basis, we are forecasting starts of 9,000 singles this year, up 31% from a lowly 6,879 in 1995. For other structural forms of ownership housing (semis, rows, and condo apartments), starts will drop, reflecting a slow start this spring.

Combining growth for singles and a decline for the other types, total starts of homeownership units will rise by 6% to 15,200 this year, from 14,407 in 1995. These starts will be slightly more than new home sales (14,400).

Readers should note that condo conversion projects are counted in the new home sales reported by the Greater Toronto Home Builders' Association, but they are usually not counted as housing starts. Therefore, condo starts will be lower than sales.

Rental starts are forecast to fall by more than 50% in 1995, to 900 units, as the provincial government is winding down its assisted housing programs. The provincial government is investigating options to stimulate private rental construction, but we don't yet know the details of its plans. We are assuming just 100 private rental starts this year - we know that some builders are assessing this option and we could be surprised.

In total, 1996 starts are forecast to fall marginally, to 16,100 units, from 16,325 in 1995. The drop will be due to lower assisted housing construction, as we are forecasting more private sector starts for homeownership and for rental.

Land supply adequate

Governments at the federal, provincial, and municipal level have joined forces to survey the supply of residential land in the Greater Toronto Area. At the beginning of 1995, about 218,000 lots were on-stream for short-term and medium-term availability. This included 65,700 lots for single-detached homes and 152,200 for multiple unit structures. Depending on how strong demand is in future, this supply is adequate to meet market needs for 3.3 to 6.4 years for singles, 2.6 to 5.4 years for semi-detached homes, 6.7-27 years for apartments, and 6.6-30 years for row homes.

The 1996 survey report is now underway. Results will be

available in the second half of the year. For additional information, please contact CMHC's Toronto Branch Market Analysis Department.

Rental market tightens

In the Toronto CMA, the vacancy rate peaked in 1992, at 2.2%. It has fallen to 0.8% as of October 1995. Population growth is fueling demand. Meanwhile, new supply is slowing. The apartment vacancy rate will fall further, to just 0.5% by October 1996. Rent increases will accelerate to 3% in 1996.

CMHC's Toronto Branch has completed a unique analysis of market rents in Toronto and how they have changed in the last five years. For new buildings, market forces have prevented rents increases for the last five years. For buildings constructed prior to 1975, rents have increased at essentially the rate allowed by rent review. The market is signalling that for new construction, attainable rents would typically be $850-900 for one-bedroom apartments and $1,000-1,050 for two-bedroom units. Of course, actual rents will vary due to location and other quality factors. A key factor limiting rents for new construction is the cost of competing homeownership alternatives. This special analysis is available from CMHC, at a cost-recovery price of $15. To order, call 789-8708.

Pencil us in for November 21st!

We have tentatively set November 21 as the date for our Third Annual Toronto Housing Outlook Conference. This event will include the official release of our National Housing Outlook for 1997 and 1998, as well as the results of our October 1996 Rental Market Survey for Toronto. Other topics will likely include the GTA Land Inventory, Consumers' Housing and Mortgage Preferences, and an examination of the immigrant housing market. Additional information will be available by mid-year.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

Forecast Summary Toronto Market

	1994	1995	1996*
New Home Market			
Total Starts	18,443	16,325	16,100
Homeownership Starts	15,897	14,407	15,200
Single-Detached	10,811	6,879	9,000
Semi-Detached/Row	3,754	4,122	3,600
Apartment Condo	1332	3,406	2,600
Rental Starts			
Private Rental	47	20	100
Assisted Rental	2,499	1,898	800
Total	1,456	1,918	900
Existing House Market			
MLS[1] Sales	44,237	39,273	38,000
Average MLS Price	$208,921	$203,028	$198,000
Sales to Listings[2]	27.1%	22.5%	21.1%
Rental Market			
Vacancy Rate (Oct)	1.2%	0.8%	0.5%
Average Rent, 2 Bedroom (Oct)	$784	$805	$830
Forecasting Assumptions			
Employment (Year End)	2,067,000	2,143,000	2,140,000
Household Formation	18,000	18,000	18,000
Net Migration	37,000	37,000	37,000
Renter Households That Can Afford to Buy (July-December)[3]	22.0%	28.7%	31.0%

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.

* Forecast by CMHC

1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association

2 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.

3 Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

Canada Mortgage and Housing Corporation
650 Lawrence Avenue West Toronto, Ontario M6A 1B2

Canada

TORONTO BUILDERS' FORECAST

Spring 1991

HIGHLIGHTS

- Toronto economy to begin to recover by third quarter of 1991
- Housing starts to total 17,000 in 1991 and 23,500 in 1992
- Resale market already showing improvement
- Migration a major factor spurring housing recovery
- Stable house prices and lower interest rates improve affordability

The housing sector in Toronto is currently at the tail end of one of its worst slumps in many years, largely as a result of a worsening employment situation. The downturn in employment began in Toronto in the second quarter of 1990, following 27 quarters (almost 7 years) of steady increase. Between the first quarter and the fourth quarter of 1990, total employment fell 3.5 per cent. Employment is likely to continue to decline for another 2 quarters, and the total decline will be 6 per cent from the peak in the first quarter of 1990. That would bring employment at the end of the second quarter of 1991 to 1.85M, compared to 1.95M at the peak. The unemployment rate, which was 3.4 per cent in the third quarter of 1989, rose to 6.7 per cent in the last quarter of 1990, and is expected to average 8 per cent during 1991. The rate will be higher than this during the first quarter, but will gradually decline through the rest of the year as people stop looking for work and temporarily withdraw from the labour force.

Manufacturing and Construction Hardest Hit

Thus far, the recession has been concentrated in the manufacturing and construction sectors, though there are indications that it is spreading to the service and trade sectors.

In the case of manufacturing, the recession is due to a combination of weak domestic demand, declining exports and a realignment of production lines in multiplant firms, as companies respond to the recession and free trade by closing older, inefficient plants. Total employment in manufacturing has been declining somewhat erratically since 1981. In the second quarter of 1989 there were 415,000 workers in manufacturing, whereas by the last quarter of 1990 there were only 375,000, a decline of 10 per cent.

The decline of employment in the construction sector is a result of weakening demand for both residential and non-residential space, combined with excess inventories of residential, office and commercial space constructed during the protracted boom years from 1986 to 1989. By the fourth quarter of 1990, employment in the construction sector on a seasonally adjusted basis fell to 110,000. This is 80 per cent of the peak level of 140,000 during the fourth quarter of 1988. Employment in construction will continue to decline as few new projects are being started.

The decline in employment, combined with international economic uncertainties, has resulted in a sharp decrease in consumer confidence. The Conference Board reports that the Index of Consumer Confidence in Ontario has fallen from 142 in the second quarter of 1987, to 74 in the second quarter of 1990, a plateau at which it remained for the rest of 1990.

Recession in Toronto to End by Third Quarter of 1991

The decline in the Toronto economy is expected to continue until the third quarter of 1991. By then it is expected that the economic situation will improve, with lower interest rates and pent up consumer demand resulting in an increase in consumer expenditures, consumer goods production and business investment. In addition, improved demand for Canadian exports to the United States will stimulate the economy; increasing as the U.S. economy picks up and a lower Canadian dollar makes Canadian goods more attractive.

This recession, to the extent that it is a typical business-cycle induced recession, will likely follow the pattern of the 1981-83 recession. At that time, house starts and sales

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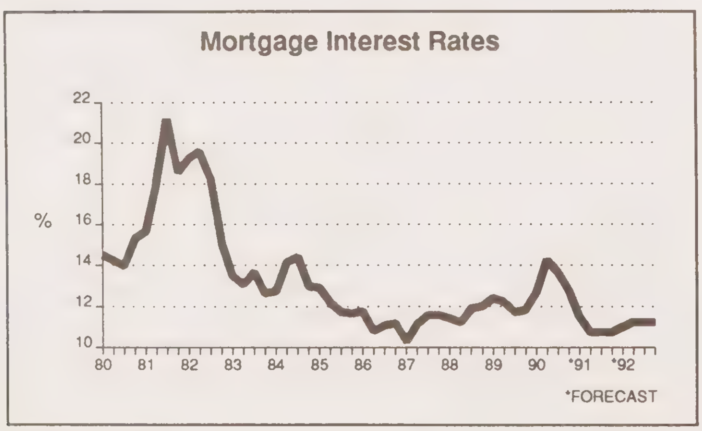
increased a half year before employment, and actual house prices did not drop, waiting instead for inflation to erode their value in real terms. Features of the current recession that make it different from the previous one include: an oversupply of units, particularly condominiums, a larger drop in prices from the peak, and the tail-end of the baby boom entering the housing market.

Nevertheless, since the basic relationship of the housing sector to the economic cycle is not expected to change, we should see an improvement in house sales and starts at the end of the first quarter, preceding the improvement in the economy. House prices are predicted to remain flat until the general level of consumer prices catches up to the dramatic house price increases prior to the recession.

Following a decline in the fourth quarter of 1990, the drop in interest rates accelerated in the first two months of the year. The decline in economic activity, along with lower interest rates in the U.S., allowed the Bank of Canada to ease monetary policy. The prime rate, after declining by one percentage point to 12.75 per cent during the fourth quarter, declined an additional 1.5 percentage points to 11.25 per cent at the end of February 1991. One and the five year mortgage rates dropped by approximately three percentage points to 11.00 and 11.50 per cent respectively by the end of February 1991 from their level of 13.25 per cent at the end of September. Even though mortgage rates have declined substantially, low consumer confidence as well as declining economic growth and rising unemployment will limit the demand for housing.

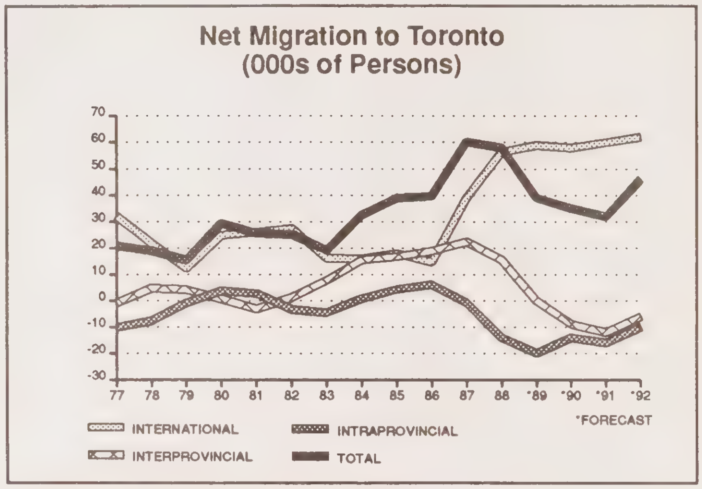
Most forecasters expect interest rates to continue to decline in 1991 as weak economic growth and lower wage inflation continue throughout the year. The introduction of the GST and relatively high interest rates in the U.S., Germany and Japan will, however, moderate the decline in Canadian rates, particularly long term compared to short term rates. By the end of 1991, mortgage rates are expected to fall by 1.5-2.0 percentage points from the level observed at the end of December 1990. Mortgage rates for a one year term are expected to be between 10.25 and 10.75 per cent while mortgages for a five year term are expected to range between 10.75 and 11.00 per cent. Most of the decline in mortgage rates is expected to occur during the first half of the year followed by a levelling off in the second half as economic conditions improve.



SOURCE: CMHC.

Migration Will Spur Housing Demand

The third major source of recovery, in addition to the improved economic environment and lower interest rates, will be the continued large influx of migrants to the Toronto area. International immigration is likely to increase as a result of government policy to raise the levels of immigration to Canada to 210,000 in 1991 and 250,000 for the subsequent 4 years. As a result, we predict that in 1991, net migration, including intra- and inter-provincial migration as well as immigration, will number 32,000, rising to 46,000 in 1992. This demographic growth will spur consumer demand, particularly for housing.



SOURCE: Statistics Canada; forecast by CMHC.

New Detached Construction to Return to Balanced Market Status by the Middle of 1991

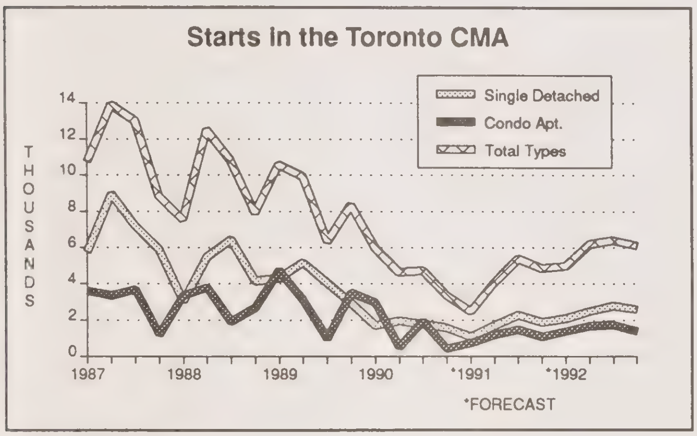
During most of 1990, the market for single detached units was in an oversupplied situation. The number of detached units planned, under construction and completed but unsold in June 1990 totalled 12,070. This is roughly 14 times the 857 units absorbed monthly. In a balanced market, the ratio lies between 5 and 8, representing the number of months that it takes to build a detached unit.

During the first quarter of 1991, much of this inventory, particularly the completed but unsold units, declined as builders sold off their standing inventory and reduced their building plans. As a result, in January 1991, the number of detached units, planned, under construction, and completed but unsold totalled 8,500, while average monthly absorptions fell to 775. As a result, the new housing market is returning to a balanced status, but at a lower level of absorptions than that which occurred during the boom. By the second half of 1991, both sales and absorptions are expected to increase, and the market will remain in its balanced state. Much of the activity will be at the lower end of the price scale, as builders try to attract the first time buyer. This parallels activity in the resale market, where the first time buyer has been responsible for the rejuvenation of the market in the first half of the year.

The average price of new single detached units at the time they were started, in Toronto, fluctuated in 1990 from a high of $441,000 in June to a low of $313,000 in November. It rose again in January 1991 to $359,000. The decline in prices was the result of both a shift by builders toward lower priced housing units and price reductions on existing models. These

price estimates do not incorporate various incentives being offered by builders. In a survey in February 1991 of new home sales offices, the major incentives, apart from price reductions, were no GST, appliance packages, and reduced rate mortgages.

Normally in a business cycle, an increase in the construction of new housing follows increased activity in the resale market by two to three months, since consumers look first to the existing home market. Builders wait several months until a significant proportion of new homes in a development are sold before actually beginning construction. As a result, new single detached house construction is expected to remain at current low levels until the middle of 1991; starts in the first half of the year will number approximately 3,000 units, while in the second half of the year, starts should jump to 4,000 units, bringing the total figure to 7,000. This is slightly lower than the figure for 1990 of 7,100. In 1992, with the economic recovery underway and demographic pressure increasing, starts of singles will increase, and are expected to total 10,000 units.



SOURCE: CMHC

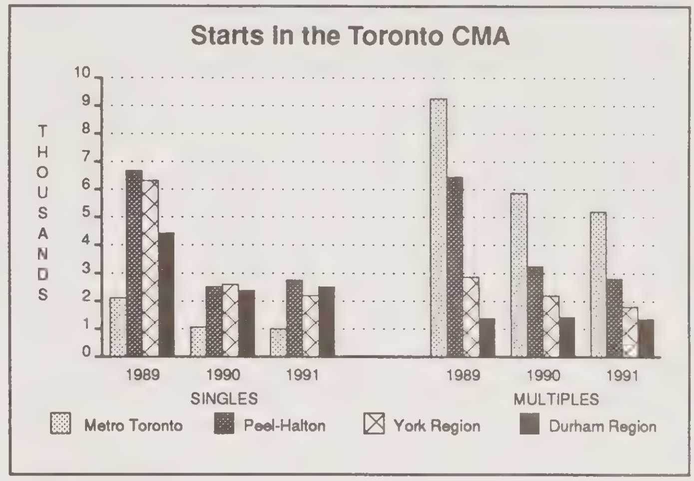
Average prices of single detached units are expected to remain at the $350,000 level, before GST, for the initial half of 1991, before increasing slowly in response to higher levels of consumer demand. By the end of 1991, we expect the average price of new single detached units to be $370,000, as purchasers wishing to upgrade their housing turn to the new home construction sector.

The multiple dwelling unit sector, dominated by the condominium market, will remain in a state of oversupply until the end of 1991, primarily as a result of the large number of units under construction — over 11,000 at the end of 1990. In addition, there are over 40 large projects that had been put on hold during the latter half of 1990. Some of these will be brought to market once the current inventory is depleted.

Starts of multiple unit projects, which totalled over 11,000 in 1990, are expected to fall to 10,000 in 1991 before rebounding to 13,700 in 1992. A significant proportion of multiple unit starts will consist of units subsidized through the various government non-profit housing programs. As well, row housing, because of its more affordable price, should become relatively popular. As the market improves, the number of condominium apartment starts will also increase.

The average price of a new apartment condominium unit started in 1990 was $300,335, while the median price was $227,500. As the market shifts toward the production of more affordable housing, we expect the average price to drop to $225,000 in 1991, and then climb to $250,000 in 1992 when the demand for luxury units starts to resume.

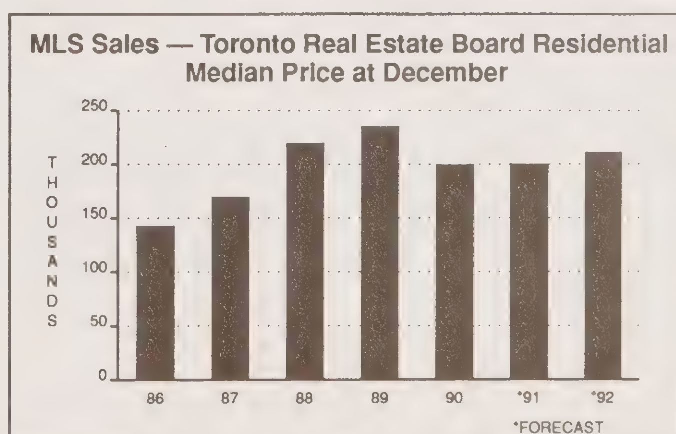
Construction activity is expected to be greatest in lower priced areas, particularly to the west and the east of the Toronto area. As the economic recovery spreads, activity will improve in Metro and York Region as well.



SOURCE: CMHC

Resales to Total 27,000 in 1991 ; 30,000 in 1992

MLS sales increased steadily since 1983 before levelling off in the second quarter of 1987. By the second quarter of 1989 they had dropped to the pre-boom period levels, where they have remained for 6 quarters. Following the sudden increase in activity in the first quarter of 1991, we expect sales to return to the 2,200 sales per month level until the end of the second quarter, and then gradually improve. Most of the strength will be at the lower end of the price scale, with product geared toward the first time purchaser. As a result sales for the entire year will equal 27,000, the same level as in 1990. In the last quarter of 1991 the market should be in a more balanced position. By 1992, as the economic recovery strengthens, sales will increase to 30,000, a growth of 11 per cent.



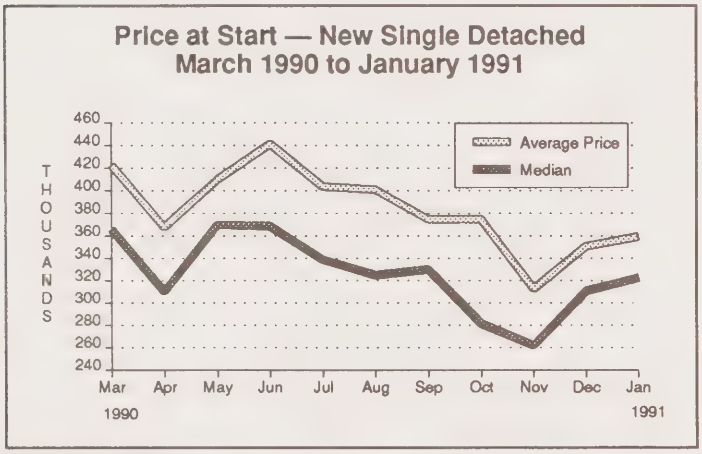
SOURCE: Toronto Real Estate Board; forecast by CMHC.

Resale Prices to Level off for Two Years

The major characteristics of the current housing recession is that it follows a period of extended price growth. The average

resale house price increased by 170 per cent between the beginning of the boom in the last quarter of 1984, and its peak in March 1989. Since that time, the median house price has fallen by 17 per cent. As a result, by the end of 1990, the median resale price in Toronto was $199,775, the same level that existed in June 1988. The major reason prices fell was the large supply of units being listed (over 23,000 at the peak in April 1989), and the return of demand to more normal levels, from the high levels created by the purchasing frenzy during the price spiral in 1987 and 1988. In fact, sales have been remarkably stable throughout most of 1990, varying around the 2,300 level for most of the year.

The boom leading up to the current recession had caused very high rates of inflation in house prices. As a result, there has been a steeper drop in prices. Most of this drop has already occurred. Sellers will try to resist any further price declines by withholding the unit from the market, if at all possible, rather than see their equity eroded. Thus, we expect median prices to level off at $200,000, and remain at that level until the economic recovery is well underway.



Price at Start — New Single Detached
March 1990 to January 1991

SOURCE: CMHC

Land Prices to Increase for Small Lots

During most of 1990 there was very little demand for serviced land, as builders cut back on their plans. Consequently, it was impossible to establish a market price for land. Toward the end of the year, there were a few land sales, and these indicate that the price may have dropped in areas such as Mississauga from approximately $4,400 a front foot to as low as $2,900. Since most of the demand for housing is from first time homeowners, demand for smaller lots has started to increase while the supply of such lots is becoming scarce. As a result, the price for such lots should increase in 1991 to $3,700 per front foot.

Rental Market Will Continue to Ease

The vacancy rate for private rental units rose in October 1990 to 1.0 per cent from 0.3 per cent in October 1989. As a result of the recession, the vacancy rate is expected to continue to rise in 1991, peaking at 1.3 per cent in October, before falling, as the economy recovers, to 0.8 per cent in October 1992.

The average rent for a two bedroom apartment in October 1990 was $689. The combination of a weakening economy, high vacancy rates and the proposed rent review system will result in average rents growing by 5 per cent in each of 1991 and 1992.

Renovation Activity To Increase

In 1989, CMHC estimates that approximately 40 per cent of all Ontario homeowners undertook major repairs or renovations, spending an average of $4,200. In addition, 70 per cent of homeowners undertook minor repairs and maintenance, at an average of $1,000 per unit. Although there are no more current statistics, we estimate that this level of activity declined by 15 per cent in 1990 as a result of the recession. This decline is expected to be reversed by the spring of 1991, as confidence in the housing market returns. Expenditures on repairs and renovations are expected to increase by 15 percent in 1991, thus returning to the levels of 1989.

Mortgage Carrying Costs Improving

Once the fear of job loss begins to recede, homeowners will be able to afford to improve their housing by moving up.The median household income of homeowners in Toronto is estimated by CMHC to be $72,000 in 1991, and will rise to $74,000 in 1992. With interest rates expected to average between 10.50 and 11.00 per cent in 1991, this would imply that the median household able to make a 40 per cent downpayment and willing to finance mortgage payments at 28 per cent of income could afford to purchase a house worth $270,000. This is roughly the same as the median price of newly constructed detached housing, and 13 per cent higher than the median price of single detached units on the resale market.

Among the renter households, CMHC has estimated that at the end of 1990, approximately 13 per cent of family households could afford to purchase a starter home in Toronto. This is a significant increase over the 8.7 per cent who could do so at the middle of 1990 and reflects the drop in MLS house prices and interest rates that have occurred in the latter half of the year. With interest rates expected to fall even further, but house prices to remain flat, this percentage should increase slightly in 1991, so that by the end of the year, 16 per cent of renter families should be able to afford homeownership. This improvement in the affordability for first time purchasers will, in turn, enable the expansion of the move-up market as well.

For further information on the Toronto Housing Market, please call Irwin Lithwick at (416) 781-2451.

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TORONTO BUILDERS' FORECAST

Spring 1995

Synopsis

- The Toronto housing market has slowed considerably, as mortgage rates have increased sharply from a year ago.
- Two key factors promise improvement for the second half of the year - an expanding recovery of job creation and the prospect of lower mortgage rates.
- For all of 1995, sales of new homes will fall by 17% from 1994, to 14,000. Housing starts will total 16,200, 12% lower than in 1994.
- First-time buyers still present the greatest opportunities to builders.

Finally - economic recovery!

After 5 years of weakness, Toronto's economy started to create jobs in the second half of 1994. Statistics Canada reports that the Toronto Census Metropolitan Area lost 176,000 jobs during the recession, or 8.1% of all jobs. (Readers might be aware of previous estimates showing that more than 200,000 jobs - 10% of the total - were lost during the recession. This estimate was revised on February 1st.) In the past seven months, 74,000 jobs have been created in Toronto. A recovery is underway, but employment is still almost 100,000 below the pre-recession level.

For all of Canada, the recovery arrived sooner and has been much stronger. In the rest of Canada, excluding Toronto, 290,000 jobs were lost during the recession. All of those jobs have been recovered and 300,000 more have been added.

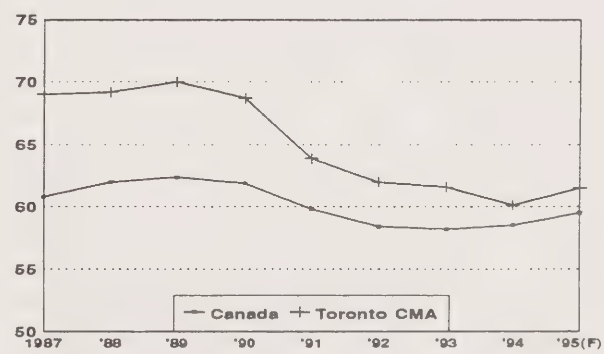
The national recovery has been driven mainly by increasing exports. It has benefited those areas of the country where the local economies are based on natural resources or manufacturing. This includes the westernmost provinces and southwestern Ontario. The Toronto economy, on the other hand, depends more on service industries. These sectors have been going through restructuring: little or no jobs are being created in services.

Toronto's recent recovery has resulted from three events. Interest rates have been lower than long-term averages - especially at the beginning of 1994. This means that consumers' debt service costs have fallen. Consumers now have more discretionary income than in the past and are increasing their spending, creating jobs in the retail sector. Lower interest rates also resulted in strong new home sales during 1994, creating jobs in construction. Finally, there has been stronger investment in Toronto's manufacturing sector, generating more jobs.

Job growth forecast

All indicators show that the Toronto economy remains weaker than it was before the recession. But, it is reasonable to expect 50,000 to 60,000 new jobs in 1995. This will be a bit weaker than the national rate of growth, because service industries will continue to lag behind goods-producing industries.

Percentage of Adults with Jobs
Toronto versus Canada



Source: Statistics Canada and CMHC forecast

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has been reduced. Toronto's advantage is now only two percentage points. During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration. Housing demand was very strong, to accommodate the expanding population. Because of the weak economy, net migration has fallen. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to 18,000 in 1994 and 20,000 in 1995. The slowdown has been due to reduced population growth and increased unemployment. Housing costs have also discouraged household formation.

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Interest rates

The key factor in the mortgage rate outlook is the strong momentum of the U.S. economy. Higher U.S. rates are needed to stem inflationary pressures and Canadian rates are following. U.S. economic growth is expected to slow during the second half of 1995, and inflationary pressures will ease. There will be scope for Canadian mortgage rates to fall later in 1995. The one-year rate is expected to decline to around 8.50-9.00% by year end, while the five-year rate is forecast to fall to 9.25-9.75%.

The evolving housing market

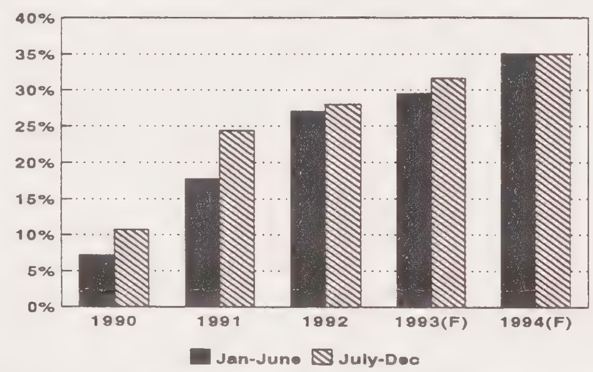
The factors that drive Toronto's housing market change over the years. It appears that the market is starting a new evolution.

During the second half of the 1980's the key factor in the housing market was very rapid job creation, which stimulated movement into the area, a growing population, and strong household formation. Housing affordability was poor and a deterrent to homebuying, but the sheer weight of population growth resulted in record levels of home sales.

In contrast, in the first half of the 1990's, a weak economy resulted in slow population growth. Meanwhile, the cost of buying a home fell, due to reductions in house prices and falling interest rates. Household formation was slow, but affordability conditions allowed thousands of renters to shift to homeownership.

Affordability reached its peak level in January 1994, when 38% of prime-buying-age renters could afford to buy. Currently, about 20% of renters can afford to buy. With interest rates expected to fall later this year, affordability will improve to around 25% in the second half of the year.

Percentage of Toronto Renters Who Can Afford to Buy



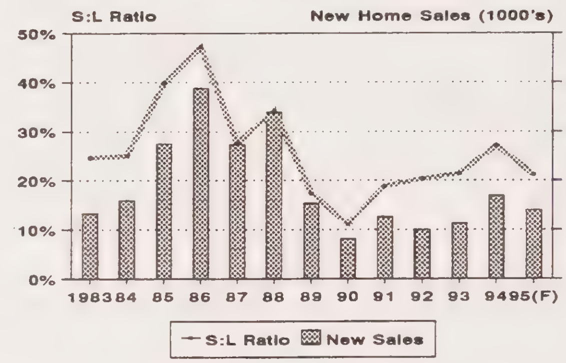
Source: CMHC

In the next few years, the background for the Toronto housing market will be moderate rates of: job growth, population growth, and housing affordability. This combination offers the promise of reduced volatility. We won't see the highs of the late 1980's boom, or the crash of the early 1990's. There will be normal seasonal variations - a repeating pattern of strength in spring, followed by weakness in late fall and early winter. We will have short-term cycles as interest rates change or the economy changes pace. But, the changes will be less dramatic than the wild swings that have marked the last ten years.

Resales set the pace

Experience shows that the most important factor affecting new home sales is the state of the resale market. New sales are strongest when the resale market is tight, as indicated by a high sales-to-listings ratio. When the listings-ratio rises, buyers have fewer choices in the resale market, and they have less ability to bargain on price. In fact, when the ratio is quite high (above 30%), prices tend to rise in the resale market, which gives buyers added incentive to look at new homes. But, when the ratio is low (below 18-20%), prices of resales tend to fall, which discourages buyers from choosing new homes. The following graph shows the relationship. The number of new home sales (shown as a bar) was pushed up during 1985-88 by a very high listings-ratio (shown as a line). During the 1990's, a low ratio has resulted in slower sales. In 1994, however, the resale market tightened, allowing builders to increase sales. In the long-term, each 1 percentage point increase in the sales-to-listings ratio results in about 700-800 additional new home sales per year.

New Home Sales Influenced by State of Resale market



Source: GTHBA/TREB/CMHC

During the 1990's, there have been three periods of significant reductions in mortgage interest rates. Each of these produced an improvement in affordability. There have been three strong waves of home sales through MLS[1]. Most recently, interest rates have increased sharply and sales of existing homes have weakened. This has dropped the critical listings-ratio to below 20%. In a soft resale market, prices have also weakened.

New homes follow

The Toronto housing market was especially buoyant in the first half of 1994, as buyers took advantage of low mortgage rates. Resales and new home sales slowed in the second half of the year, as higher rates reduced affordability. For the entire year, new home sales reached 16,920, 50% more than in 1993.

CMHC estimates that the housing market peaked in April: the resale market sales-to-listings ratio reached 36.5% (seasonally-adjusted) and the average MLS price had increased by $17,000 in just five months. Under these favourable conditions, new home sales hit a seasonally-adjusted annual rate (SAAR) of 22,500. During the second half of the year, the market slowed. The listings-ratio was just above 20% and prices were settling. This effect spilled into the new homes market and reduced new sales to an annual rate of 16,000. By late 1994/early 1995, there has been further weakening. With the sales-to-listings ratio below 20%, builders are competing in a more difficult market and new sales have been in the neighbourhood of 11,000 units.

Due to high interest rates and reduced affordability, the market will be weak this spring. The second half will be stronger, as interest rates are expected to fall and job growth is continuing.

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[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

For all of 1995, the listings-ratio will average 21%, down from 27% in 1994. New home sales are forecast at 14,000 for 1995, including 9,500 freehold units and 4,500 condominiums.

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. In the last five years, 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. At the beginning of 1994, homeownership was accessible at an income of $40,000. At today's mortgage rates, $50,000 is required. But, this is still much better than five years ago, when the required income was $75,000 to $80,000. This has made homeownership accessible for thousands of renters, including many who are at fairly late stages in their working lives. In our mortgage insurance business, CMHC is finding that one-quarter of first-time buyers in Toronto are 40 or more years old.

Today, there is a sizeable pool of renters of all ages who could potentially become homeowners. Many are staying in rentals by choice, but there are many others who are not aware that they can now afford to buy.

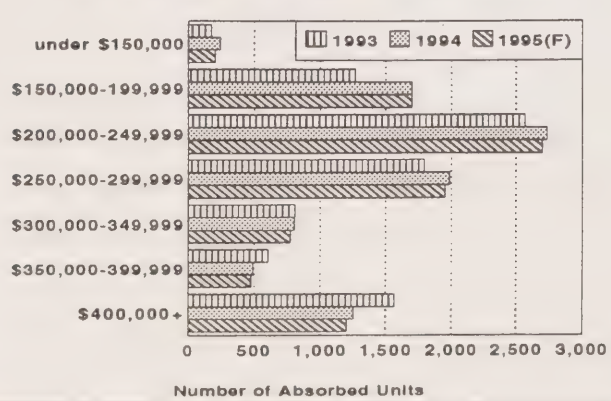
Industry faces a challenge to alert renters to the possibility of homeownership. The greatest opportunity in the market is to create products that meet the needs of low income buyers, and to provide features that are not available in the resale market.

Price Sensitivity

The median house price for first time buyers in Toronto is about $150,000 (50% of buyers pay less than this). Another 25 to 30% of first-timers pay $150,000 to $175,000. This price sensitivity explains why builders are having increasing success with small single-detached homes from $160,000 and up, semis from $140,000, and town-homes from $120,000.

Move-up demand, on the other hand, has been weak. Potential move-up buyers are hesitant to take on larger mortgages, because of uncertainty about jobs and because there is no urgency to buy. This has reduced demand for upper end singles, as the following graphic shows. Meanwhile, sales have grown for modest product. In 1994, the average price of an absorbed single was $291,596, down from $307,244 in 1993 and $322,677 in 1992. For 1995, the average price is expected to increase slightly, to $295,000, as there will be a modest pick-up in move-up buying.

New Home Buyers Choose Modestly Priced Single Detached Home - Units Absorbed



Source: CMHC.

Condo apartments buoyant

There are at least two major segments in the market for condo apartments. One is the off-shore buyer, who is primarily concerned with high quality. The other is renters, who want ownership options that are cost-competitive with renting, but offer the same life-style. A number of builders have found success in this segment, with low-amenity projects that offer low monthly costs in good locations. These projects have the potential to shift thousands of renters into homeownership in the coming years. The recent success of conversion projects demonstrates the potential.

Housing starts follow sales

For most new homes, an actual "housing start" occurs 3 to 9 months after the sale. Because sales have slowed in recent months, starts will also slow in the near future. The greatest slowdown in sales has been for freehold homes, especially single-detached homes. Thus, single-detached starts will fall by more than 20% this year. But, condo sales were quite strong during late 1994 and into early 1995. Therefore, condo starts will increase this year, for both apartments and town-homes.

Starts of homeownership units will fall by 15% to 13,500 this year, from 15,897 in 1994. These starts will be slightly less than new home sales (14,000) because some of the sales will be from standing inventory, or will be in conversion projects, which are not counted as new construction. Rental starts will increase modestly (6%), due to an anticipated increase in assisted housing activity.

In total, housing starts will reach only 16,200 units, down 12% from 1994.

Variation across the market

Benefitting from a good supply of available land and established transportation links, western areas of the Toronto CMA continue to experience the greatest activity. Peel and Halton Regions accounted for 40% of all Toronto CMA housing starts in 1993. York Region experienced a one-third increase in 1994, based on a surge in sales for freehold housing options. With first-time homebuyers continuing to dominate the market, and with ample land supplies, the western portion of the CMA will continue to lead in 1995.

Land supply adequate

Governments at the federal, provincial, and municipal level have joined forces to survey the supply of residential land in the Greater Toronto Area. At the start of 1994, 205,000 lots were on-stream for short-term and medium-term availability. This includes 62,400 lots for single-detached homes and 142,600 for multiple unit structures. Depending on how strong demand is in future, this supply is adequate to meet market needs for 3 to 8 years for singles, 3 to 6 years for semi-detached homes, 10 to 21 years for apartments, and 7 to 12 years for other multiples.

The 1995 survey is now underway. The report should be available early this summer. For additional information, please contact CMHC's Toronto Branch Market Analysis Department.

Rental market tightens

In the Toronto CMA, the vacancy rate peaked in October 1992, at 2.2%. It fell to 1.2% by October 1994. As more jobs are created and migration increases, demand for rentals will expand further in the coming years. Meanwhile, new supply is slowing. During 1995, the apartment vacancy rate will fall further, reaching 0.7% by October. This reduction in the vacancy rate will result in faster rent increases, at 2% in 1995.

Forecast Summary Toronto Market

	1993	1994	1995*
New Home Market			
Total Starts	15,637	18,443	16,200
Homeownership Starts	11,479	15,897	13,500
Single-Detached	8,037	10,811	8,500
Semi-Detached/Row	2,644	3,754	3,400
Apartment Condo	798	1,332	1,600
Rental Starts			
Private Rental	291	47	50
Assisted Rental	3,867	2,499	2,650
Completed and Unoccupied Units-December			
Single-Detached	357	392	325
Total	2,122	1,456	1,300
Average Monthly Absorption Rate			
Single-Detached	732	768	750
Total	1,709	1.503	1,450
Average Price New Absorbed Single	$307,244	$291,596	$295,000
Existing House Market			
MLS[1] Sales	38,990	44,237	38,000
Average MLS Price	$206,490	$208,921	$204,000
Sales to Listings[2]	21.4%	27.1%	21.1%
Rental Market			
Vacancy Rate (Oct)	2.0%	1.2%	0.7%
Average Rent, 2 Bedroom (Oct)	$773	$784	$800
Forecasting Assumptions			
Employment (Year End)	2,038,000	2,067,000	2,140,000
Household Formation	16,000	18,000	20,000
Net Migration	2,000	20,000	37,000
Renter Households That Can Afford to Buy (July-December)[3]	31.6%	22.0%	25.0%

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.
* Forecast by CMHC
1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.
2 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.
3 Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

Consumer preferences - get the inside edge

"Consumer Housing Preferences in the 1990s" is an in-depth study of Canada's owners and renters. Based on a survey of 2,460 households across Canada, it looks at topics such as most-liked and disliked house features, the likelihood of buying a new or resale home, preferred mortgage features, and more than 40 other topics.

Insightful analysis is presented for each province, with spotlights on Toronto, Montreal, and Vancouver. To provide a complete picture, the homebuying market is sliced into four distinct segments: Baby Boomers, Pre-Boomers, Empty Nesters, and Generation X.

The report costs $149.95. Or get the report and an easy to use WindowsTM compatible 3.5" diskette, for $199.95.

The package comes with a 21-day money back guarantee. Call 1-800-304-8736 to order it, or call us at 416-789-8708 to arrange a preview.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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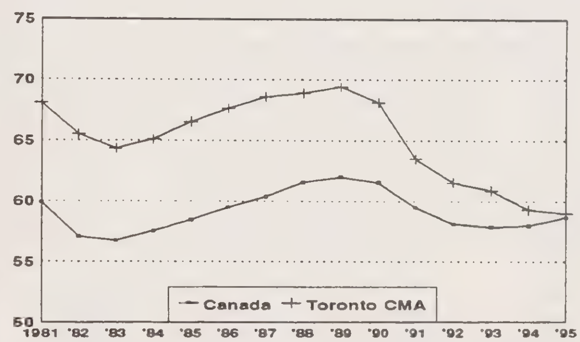
TORONTO BUILDERS' FORECAST

Fall 1994

Synopsis

- Following a boisterous spring, the Toronto real estate market has slowed considerably. This is causing a corresponding reduction of new home sales.
- First-time buyers still provide the greatest opportunities for builders. Despite increased mortgage rates, affordability is a strong positive.
- Toronto is on the verge of economic recovery - finally - but job growth will have only a marginal impact on the housing market during the next year and a half.
- The key factor in the market is a clouded outlook for mortgage rates. Lower rates will boost sales later in 1995.

Percentage of Adults with Jobs Toronto versus Canada



Source: Statistics Canada and CMHC forecast.

Lingering effects of recession

The recession of 1990 was over long ago, as far as Canada is concerned. The Toronto area, however, has been slow to join in the recovery. In the rest of Canada, excluding the Toronto Census Metropolitan Area (CMA), almost 300,000 jobs have been created during the past year. The national recovery is becoming broadly based, with activity expanding across a wide section of the economy. In Toronto, 200,000 jobs were lost during the recession - 10% of the total. There has not yet been any recovery of jobs. In the rest of Canada, by comparison, 3% of jobs were lost during the recession - all of those losses have been regained, and an additional 2% have been added.

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has been steadily closing, and Toronto's advantage is now only one percentage point. During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration, rapid population growth, and accelerated household formation. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to a forecast of 18,000 in 1994 and 20,000 in 1995.

The turning point

The first convincing signs of an economic turning point are now being seen in Toronto. Consumer spending, on a per person basis, adjusted for inflation, fell by 19% during the recession. This key indicator has picked up recently, increasing by 4% in just the first half of 1994. For all of 1994, it is forecast to increase by 5%, followed by at least 2% next year.

In the construction industry, data on building permits indicate that activity in the Toronto CMA fell by 60% during the recession. The trend stabilized at the beginning of this year and is starting to pick up, led by housing and construction of industrial facilities.

A third positive factor is increasing strength in the manufacturing sector. For each of these three major industries - retail trade, construction, and manufacturing - we can reasonably expect to see modest rates of job creation during the 1994-95 forecast period. On the other hand, on-going restructuring, especially in very large organizations in business and government, will hold back employment. Overall, the total number of jobs will increase from 1.75 million in August 1994 to 1.78 million in December 1995. This increase of 30,000 is a relatively weak growth rate. It will provide only limited stimulus to the housing market.

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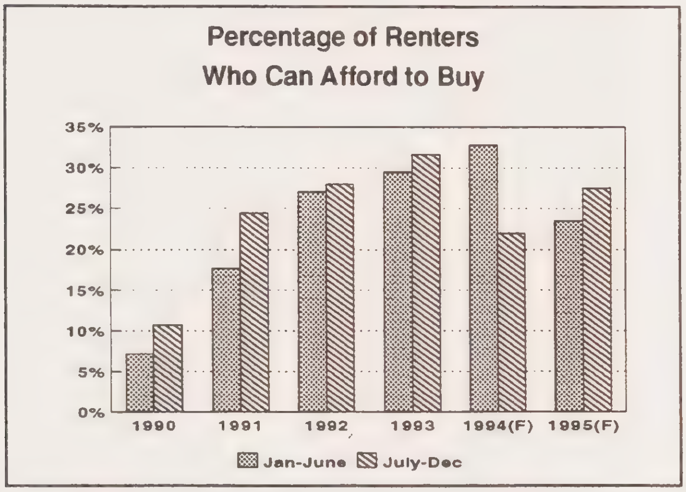
Interest rates

In recent weeks, Canadian interest rates have declined moderately. However, concerns about inflation in the U.S. and Europe are limiting the potential for larger reductions. Consequently, Canadian mortgage rates are likely to remain around current levels or rise slightly until year end. During 1995 the U.S. economy will slow and inflationary pressures will ease. There will be scope for Canadian mortgage rates to fall next year. For the end of 1995, the one-year mortgage rate is forecast at 7.5%, with the five-year rate at 9%. There is some risk that inflation in the U.S. and Europe could be more persistent than expected, which would result in higher rates.

Affordability still a plus

Although interest rates have increased, affordability is still better than it was during the late 1980's. The percentage of Toronto renters who can afford to buy (22%) is now three times the level seen during 1989 and 1990 (7%). However, affordability has dropped from the record high rate of 32.8% recorded in the first half of this year. As interest rates ease during 1995, affordability will recover to 27.5% in the second half of the year.

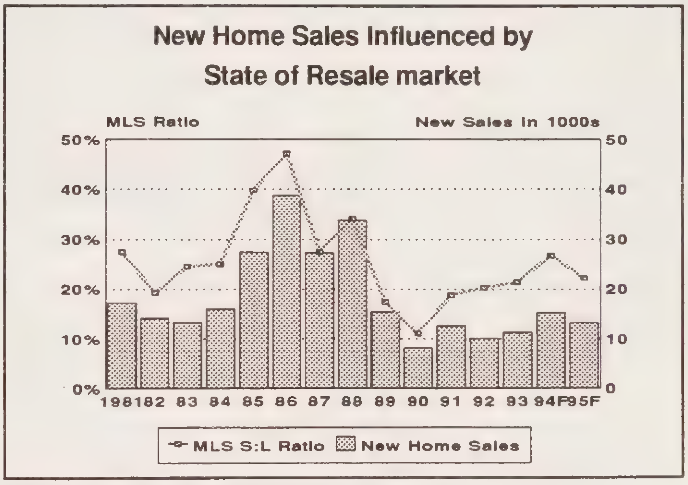


Source: CMHC.

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. First-timers were largely locked-out of the market during the boom (1985-89), by escalating house prices and rising interest rates. Since the peak, house prices have fallen by 25-30% and interest rates have tumbled. At the beginning of 1994, homeownership was accessible at an income of $40,000. At today's mortgage rates, slightly more income is required - $45,000. In 1993 there were 125,000 renter households in the Toronto CMA who were in the 25 to 44 age group and who had incomes of more than $45,000. Since then, this number has been reduced by strong home-buying. There are likely about 100,000 renters in the prime home-buying age who can afford to buy at present. Not all of these renters will become owners, due to life-style preferences or uncertainty, but at the current level of affordability, strong first-time buying activity can continue for some time.

Resales set the pace

Experience shows that the most important factor affecting new home sales is the state of the resale market. In particular, new home sales are strongest when the resale market is tight, and the sales-to-listings ratio is high. When the ratio rises, buyers have fewer choices in the resale market, and they also have less ability to bargain on price. When the ratio is quite high (above 30%), prices tend to rise in the resale market, which gives buyers added incentive to look at new homes. But, when the ratio is low (below 18-20%), prices of resales tend to fall, which discourages buyers from choosing new homes. The following graphic shows that the number of new home sales (shown as bars) was pushed up during 1985-88 by a very high sales-to-listings ratio (shown as a line). During the 1990's, a low ratio has resulted in much slower sales. In early 1994, however, the resale market tightened and builders increased sales. In the long-term, each 1 percentage point increase in the sales-to-listings ratio results in about 700-800 additional new home sales per year.



Source: Toronto Real Estate Board/Brethour Research.

A brief discussion of the resale market and its outlook is needed, to set the stage for the forecast of new homes activity.

During the 1990's, there have been three periods of significant reductions in mortgage interest rates. Each of these produced a strong wave of home sales through MLS[1]. The first two waves ended abruptly when the rate reductions ceased. The third wave actually gathered strength - for a time - as rates increased in early 1994.

Early in 1994 interest rates reached thirty year lows, and affordability was at the best levels since the early 1970's. But, interest rates increased sharply last spring. For example, the five-year mortgage rate increased from 7.25% in January/February to 10.75% in June/July. Sensing that the interest rate cycle had reached bottom, consumers accelerated their home-buying decisions during February to June, to take advantage of pre-approved mortgages. Home sales were above the level that is justified by economic fundamentals. The market "borrowed" activity from the second half of the year. And, the sales trend is now showing a marked deceleration.

New homes follow

The new homes market has been affected in the same way. As a result, 1994 sales will reach 15,200 units, 35% more than in 1993, and the highest level since 1989. The 1994 total will include 10,200 freehold units and 5,000 condos. The greatest strength was during the spring. During the late summer, the sales trend has slowed. CMHC estimates that the market peaked in April: the resale market sales-to-listings ratio reached 36.5% (seasonally-adjusted), the average MLS price increased by $17,000 in just five months, and new home sales hit a seasonally-adjusted annual rate (SAAR) of 22,500. As of August, the sales-

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

to-listings ratio reached 22.7% (SA), and is still falling. New home sales have fallen to 16,800 (SAAR) in August.

Both resales and new homes activity slowed between April and August. But, the reduction for new homes (-25%) was less than for resales (-31%). Some builders have identified niches, for products that are not well-supplied in the existing inventory. Builders have found success with low-cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $120,000). Amenity-free, low-rise condominiums and stacked town-homes are also an attractive option, due to their modest prices ($100,000 and up), low monthly common charges, and central locations. Builders are also offering more low-end single-detached homes, priced from $160,000 and up. Because affordability has been reduced in recent months, many buyers are reducing their expectations. This is further expanding opportunities for well-priced starter options. In the remainder of 1994 and 1995, attached homes will take an increasing share of the market.

During late 1994/early 1995, the resale market will be over-supplied. With the sales-to-listings ratio at or below 20%, and prices under downward pressure, builders will be competing in a more difficult market. As 1995 progresses, the resale market will move back towards balance, as modest job creation and lower mortgage rates boost demand. For all of 1995, the sales-to-listings ratio will average 22%, down from 27% in 1994. New home sales are forecast at 13,200 for 1995, including 9,200 free-hold units and 4,000 condos. Counter to 1994, sales will be weak in the first half and gather strength in the second half.

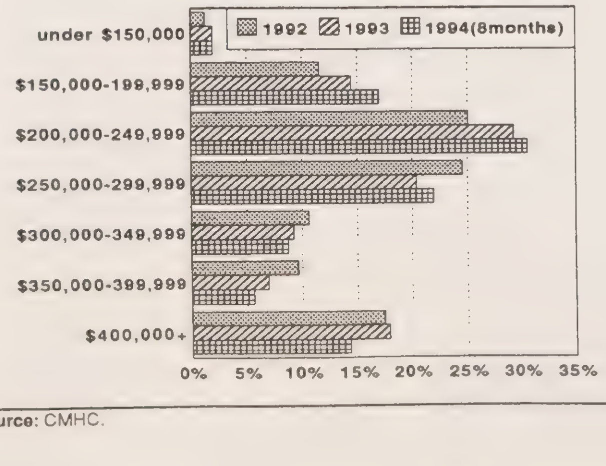
Builders report that costs are increasing. Due to slower demand, with downward price pressure in the resale market, builders will have difficulty passing on the cost increases.

First-timers lead the market

Due to improved affordability, great opportunities also exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has been weak. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy. House values are not expected to increase in 1995 and interest rates are expected to remain affordable. We are now seeing signs of improving consumer confidence. Move-up buyers will become more willing to act on opportunity and a small recovery of move-up activity will gradually gather steam during 1995.

During 1995, however, the greatest opportunities will be in the first-time buyers' market. The greatest sales growth this year

New Home Buyers Choose Modestly Priced Single Detached Home - Units Absorbed



Source: CMHC.

has been for modest product. For the first eight months of 1995, the average price of an absorbed single has been $297,000, down from $307,244 in 1993 and $322,677 in 1992. This reduction is mainly due to a shift in what is selling. During January to August 1994, 50% of new singles have sold for less than $250,000, compared to 46% in 1993 and 38% in 1992. The average price will continue to decline during the coming months, because of expanding sales at the low end of the price range.

Housing starts follow sales

For most new homes, an actual "housing start" occurs 4 to 9 months after the sale. Because sales picked up early this year, construction levels are now increasing. Starts of freehold homes are rising most rapidly. On the other hand, condo construction has lagged. During January to August there were 3,666 sales of new condos but only 998 starts. A majority of condo sales are being made from standing inventory. However, condo inventories are being depleted and more of the sales are now pre-sales. These will lead to starts in 1995. During 1995, freehold starts will begin to tail-off, reflecting lower sales levels in late 1994.

Starts of homeownership units will reach 14,700 this year, 28% more than in 1993, but will slip to 14,100 in 1995.

The construction of rental units will fall by 30% to 2,900 units this year. Starts will slow in both the private and assisted rental markets. They will increase slightly next year.

In total, starts in the Toronto CMA will reach 17,600 in 1994, 13% ahead of last year. A modest slowdown will follow in 1995, to 17,100 units. The reduction in starts will be less steep than the sales reduction, because condo construction will improve.

Land supply adequate

Governments at the federal, provincial, and municipal levels have joined forces to survey the supply of residential land in the Greater Toronto Area. At the beginning of this year, 232,000 lots were on-stream for short-term and medium-term availability. This includes 68,000 lots for single-detached homes and 164,000 for multiple unit structures. Depending on how strong demand is in future, this supply is adequate to meet market needs for 6.7 to 12.6 years. Additional information is available from CMHC's Toronto Branch Market Analysis Department.

Renovations ready for improvements

The value of renovations fell sharply during the recession. The trough was reached in 1993, 42% below the 1989 peak. During the first half of 1994, renovation spending has been much improved, as increased consumer confidence is creating more willingness to spend on housing. For 1994, renovation spending is on track to reach $210-$220 million, compared to $188 million last year. For 1995, forecast spending is $225 million.

Rental vacancy rate to fall

In the Toronto CMA, the vacancy rate peaked in October 1993, at 2.2%. It has fallen gradually, to 1.8% as of April 1994. The demand for rental housing has been limited, by a combination of strong movement towards homeownership, high unemployment among younger age groups, and reduced in-migration. New supply has also been added, mainly in the assisted sector. Factors are now shifting in favour of stronger demand: higher interest rates are reducing home-buying and expanding employment will result in more household formation by young people. New supply is also slowing. During 1995, the vacancy rate will fall more rapidly, reaching 1.4% by October 1995.

Forecast Summary Toronto Market

	1993	1994*	1995*
New Home Market			
Total Starts	15,637	17,600	17,100
Homeownership Starts	11,479	14,700	14,100
Single-Detached	8,037	10,400	9,000
Semi-Detached/Row	2,644	3,600	3,400
Apartment Condo	798	700	1,700
Rental Starts			
Private Rental	291	100	200
Assisted Rental	3,867	2,800	2,800
Completed and Unoccupied Units-December			
Single-Detached	357	300	250
Total	2,122	1,500	1,400
Average Monthly Absorption Rate			
Single-Detached	732	730	800
Total	1,489	1,500	1,450
Average Price New Absorbed Single	$307,244	$295,00	$290,000
Renter Households That Can Afford to Buy (July-December)[1]	31.6%	22.0%	27.5%
Existing House Market			
MLS[2] Sales	38,990	44,000	40,000
Average MLS Price	$206,490	$208,000	$206.000
Rental Market			
Vacancy Rate (Oct)	2.0%	1.7%	1.4%
Average Rent, 2 Bedroom (Oct)	$773	$790	$805
Forecasting Assumptions			
Mortgage Rate 3 Year	8.10%	9.25%	9.40%
Employment (Average)	1,772,000	1,760,000	1,780,000
Household Formation	16,000	18,000	20,000
Net Migration	20,000	24,000	30,000

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.
* Forecast by CMHC
1 Canadian Housing Markets, third quarter 1994; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.
2 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

CMHC's first annual housing conference

How many times have you wrestled with the complexity of Toronto's housing market, trying to see the big picture in a myriad of details? To anticipate changes and capitalize on opportunities, you need to know how the market is affected by factors like employment growth, changes in the economy, migration, and demand from first-time and move-up buyers. But, you don't always have the time to conduct your own detailed analysis. That's why CMHC is offering a one-day Housing Outlook Conference in Toronto, on Tuesday, November 22nd.

The panel of experts will cover topics such as consumers' housing preferences in the 1990's, the impact of demographic change on long-term housing demands, changing characteristics of the mortgage market, and the economic and housing market outlooks for Canada, Ontario, and Toronto.

The fee for this content-packed conference is $175 plus GST. Book early, by October 15th, and the fee is reduced to $125 plus GST. Fees include lunch and all conference materials.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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Toronto, Ontario
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TORONTO BUILDERS' FORECAST

Spring 1990

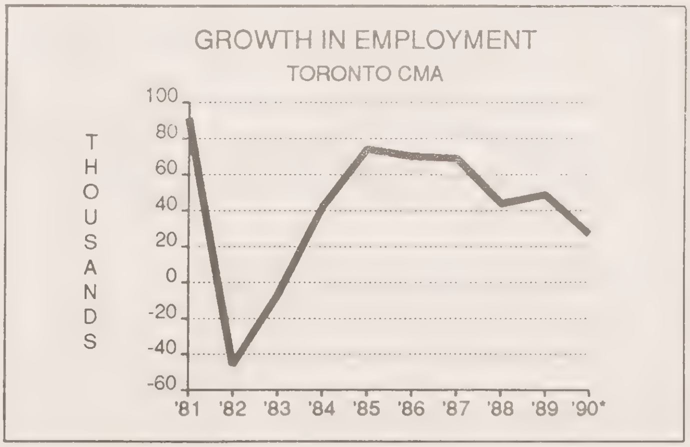
Highlights

- Toronto's economy will slow down as a result of slowing employment creation and declining inter-provincial migration, although international immigration will remain strong.
- Housing starts are expected to decline 19 percent reflecting the slowing economy.
- New home sales are expected to increase 10 percent in 1990.
- New condominium prices should decline as a result of an oversupply of units.
- The median price of a resale single detached unit is expected to rise by 5 percent to $295,000 in 1990.
- The rental market has eased slightly but remains one of the tightest in Canada.
- Renovation activity is expected to increase about 5 percent.
- As interest rates fall, housing should become more affordable.

A Soft Landing for Toronto

The economy of Toronto is expected to level off in 1990 after six years of employment growth. Since April 1983, total employment has grown by 395,000, with 49,000 of these jobs being created in 1989. Most of the jobs created in 1989 were in the service sector, although on a proportional basis the rate of growth was highest in the public service and construction sectors, while employment in the trade sector actually declined. As a result of the anticipated economic slowdown in both the United States and Canada, a decline in automobile sales, and falling retail sales, only 27,000 new jobs are likely to be created in Toronto in 1990, the lowest increase since 1983.

Interprovincial migration figures show a loss to Ontario of 3,000 in the first nine months of 1989. This compares to positive interprovincial migration figures of 11,000 in 1988 and 38,000 in 1987. However, net immigration from other countries remains strong. During 1989, net immigration to Ontario will total 79,000, compared to 68,000 in 1988. With recent liberalization in Eastern Europe, total net immigration is likely to increase in 1990 to 92,000. Assuming 60 percent of these immigrants come to Toronto, and that the average number of persons per household is 3.0, this immigration will result in 18,000 additional households in 1990.



SOURCE: Statistics Canada
*Forecast by CMHC.

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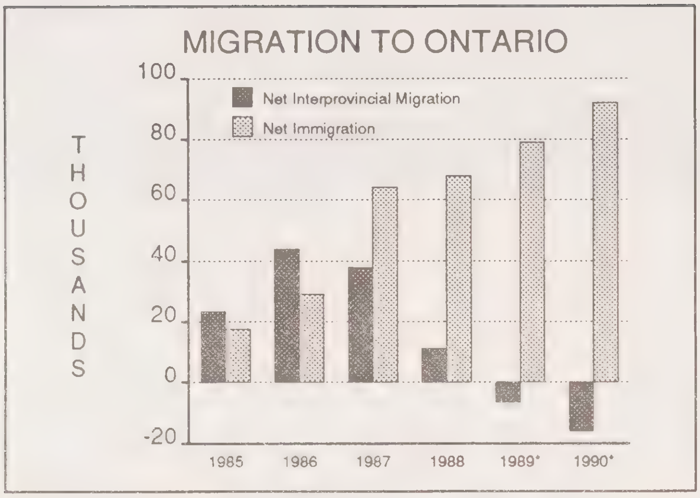


SOURCE: Statistics Canada
*Forecast by CMHC.

As a result of slowing employment creation, declining interprovincial migration but growing international migration, a slight rise in the unemployment rate is expected in Toronto. The unemployment rate, which stood at 3.1 percent in October 1988, rose to 4.1 percent by November 1989, and is expected to rise to 4.6 percent by November 1990.

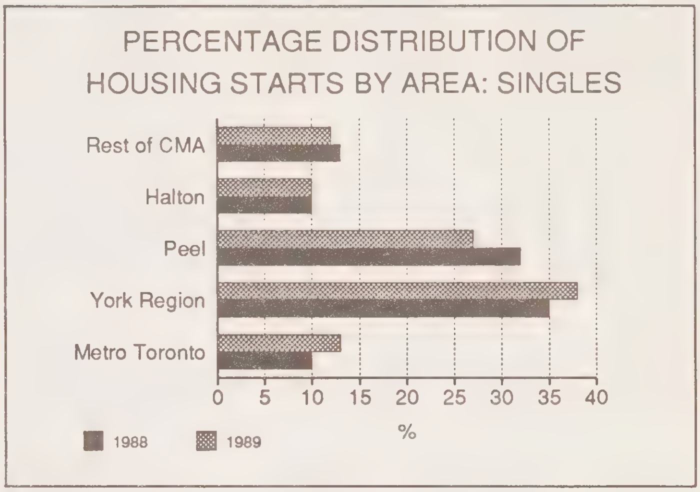
Mortgage Rates to Ease

In 1989, mortgage interest rates averaged 12.85 percent for a one-year term and 12.06 percent for a five-year term. After remaining largely unchanged throughout the second half of 1989, one-year mortgage rates at major banks and trust companies declined by a half of a percent and then increased three quarters of a percentage point in the first quarter of 1990.

Most forecasters expect a moderate decline in interest rates throughout the year. One-year rates are expected to decline by approximately one percentage point. Five-year mortgage rates are forecast to edge down in line with easing inflation and market rates but the decline could be moderated by inflationary expectations. The higher value of the dollar and recent increases in the Japanese and German interest rates could also limit this decline.

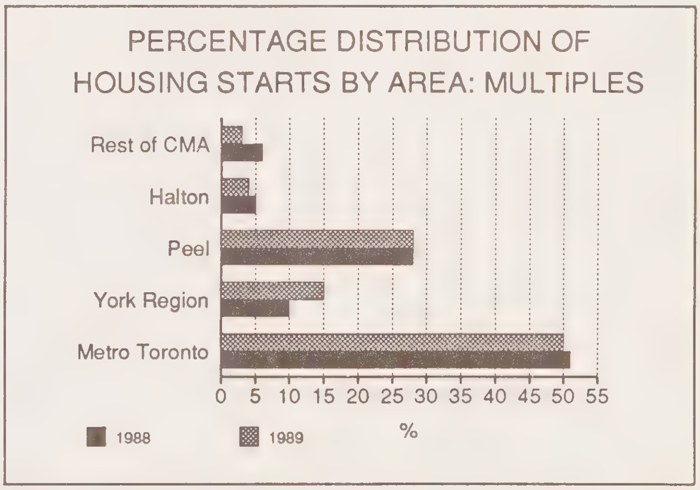
Housing Starts to Decline

Housing starts, which numbered 35,184 in 1989 are expected to decline by 19 percent in 1990 to a level of 28,450. The number of single starts is expected to fall from 16,529 units in 1989 to 12,000 units in 1990, while condominium apartment starts should fall from 12,382 to 7,250 units. Only a slight decline in owner-occupied row housing, from 1,658 to 1,600 units is expected as builders seek to satisfy the demand for affordable family housing. There will be a significant increase in the number of assisted rental starts as projects approved by the federal and provincial governments begin construction.



SOURCE: CMHC.

In 1989, 38 percent of the starts of single detached units occurred in York Region, up from 35 percent the previous year. In Pickering, starts of singles fell by 68 percent. Fifty percent of the multiple unit starts took place in Metropolitan Toronto, the same proportion as in 1988.

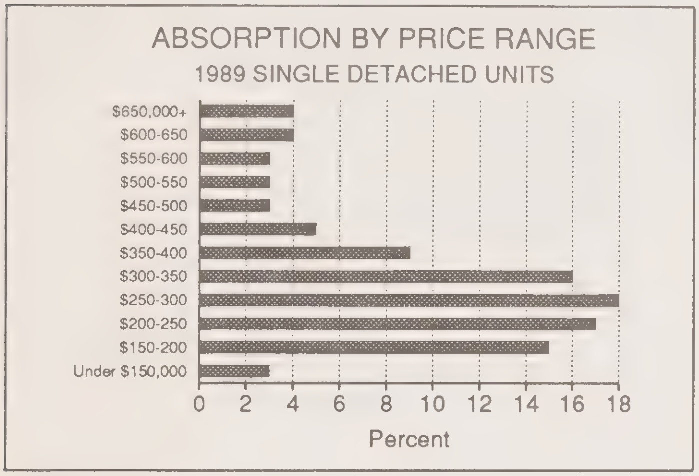


SOURCE: CMHC.

House Prices to Increase Slightly

The median price of newly completed detached single family homes was $320,000 in the last quarter of 1989, up 40 percent from the $229,000 recorded in the last quarter of 1988, according to statistics from CMHC's Starts and

Completions Survey. Eighteen percent of newly completed single detached units had a price below $200,000, while 14 percent were sold at a price above $500,000. In contrast to CMHC statistics, which record the price at the time of completion, the Toronto Home Builders' Association record prices at the point of sale, which is usually prior to construction. They reported a 35 percent increase in the average price of new detached homes from October 1988 to October 1989.



SOURCE: CMHC

Prices for single detached units are expected to flatten out in 1990, in response to declining demand and an increase in the construction of lower priced, more affordable housing. The median price for a completed single detached unit is forecast to rise moderately to $335,000 in 1990.

Sales of new homes, according to the Toronto Home Builders' Association, declined sharply in the middle of 1989, but have since begun to increase modestly. During all of 1989, new home sales totalled 15,395 units, compared to 33,983 in 1988. For 1990, total sales are expected to number 17,600, representing a 10 percent increase from the very low figure in 1989.

Sales of new condominiums declined from a high of 1,661 in October 1988 to 226 units in August 1989, and then increased to over 400 in October. Starts should remain level into the spring of 1990, as a large number of projects are still in the pre-selling phase. Once construction begins on the current inventory of pre-sold units, starts of condominium projects will decline. As a result of the large supply of new units, prices should decline by 10 percent, in addition to which many builders will offer special incentives in order to sell out projects.

Land Supply

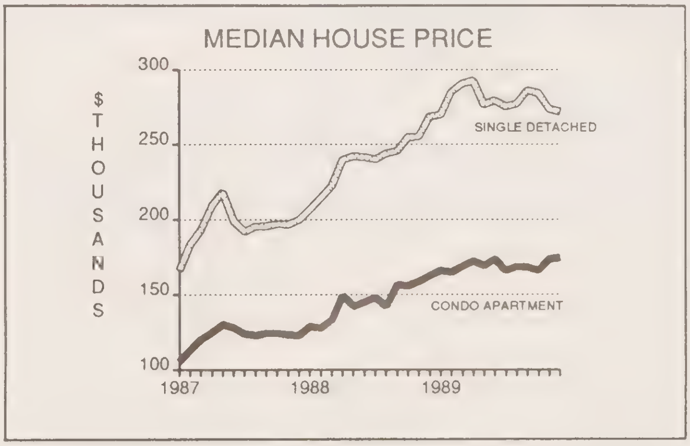
Land prices have remained relatively stable since the spring of 1989. Many landholders are waiting until the strength of the spring building season is known before deciding on the extent to which they will release land, and the price at which it will be released.

Land supply for single family housing is expected to be adequate to meet 1990 requirements, though limits on sewage capacity will increasingly constrain the supply of land. With a potential surplus of condominium units, the price of land zoned for high rise development will likely fall in 1990. As a result of municipal development charges permitted under Bill 20, lot prices for singles will likely increase, but only in 1991.

Resale Prices

The price of resale housing, according to the Toronto Real Estate Board, has remained relatively flat since February 1989, as the median price for a single detached unit fluctuated between $270,000 and $290,000. In 1988, the median price for a single detached unit was estimated to be $238,000. In 1989, the estimated median price of a single detached unit was $282,000, or 18 percent higher than the previous year. For 1990, prices for single detached units are expected to rise marginally, resulting in an annual median price of $295,000.

The median price for condominium apartments, which rose by 17 percent from 1988 to 1989, is expected to increase by less than the rest of the market, largely as a result of the large supply of new units being marketed. For 1990, the median condominium unit on MLS is forecast to be $171,000, up from $169,000 in 1989.



SOURCE: TREB

Prices in the central corridor of the CMA, which from 1987 to 1989 had grown most rapidly, are expected to show least growth in 1990. As this is the area with the highest priced housing, the decline in demand will likely be felt most in this sector.

The total number of sales on MLS fell from 49,381 in 1988 to 38,960 in 1989, as high prices limited entry into the market. In 1990, resales are expected to fall to 32,000.

Rental Market Eases Slightly

The vacancy rate for private rental units rose in October 1989 to 0.3 percent from 0.2 percent in April 1989. The vacancy rate is expected to increase to 0.6 percent by October 1990, mainly because of the large number of condominium units coming on stream in the next 14 months, many of which will be rented out. Most of these vacancies will be in higher priced units which are in competition with the new condominium units. Despite this easing, Toronto will continue to be one of the tightest markets in the country.

The average rent for an apartment in projects of six or more units in October 1989 was 7.4 percent above the average rent in October 1988. Because of rent review applications above the provincial guideline of 4.6 percent, average rents are expected to increase by 6 percent in 1990.

Renovation Activity to Stabilize

The total value of building permits for home improvements in the first ten months of 1989 in Toronto was $298 million, down slightly from the $305 million issued for the comparable period in 1988. A major reason for the lack of growth is the difficulty in finding skilled labour for renovation. However, with the anticipated decline in new construction, renovation activity will likely increase in 1990 by about 5 percent.

Mortgage Carrying Costs

According to Statistics Canada, the median household income of homeowners was approximately $62,000 in 1987. Assuming incomes increase at approximately the same rate as consumer prices, roughly 5.5 percent per year, then the average income of owners in 1990 would be $72,000. Assuming a 40 percent downpayment, an expenditure of 28 percent of income on debt service, and a mortgage interest rate of 10.75 percent, the average household could purchase a home priced at a $295,000, which is the same as the anticipated average MLS price. In 1989, with an average income of $68,500 and an interest rate of 12.15 percent, the average household could purchase a house that cost $255,000. Thus, as the result of a small increase in price and a 1.40 percentage point drop in interest rates, housing in Toronto has become more affordable.

The average family income of renters under 65 years was $41,000 in 1987. At a growth rate of 5.5 percent per annum, this should rise to $47,900 in 1990. Assuming a 15 percent downpayment, the above renter household could afford to purchase a home costing $142,000 home in 1990; this price is 87 percent of the anticipated median price of a condominium apartment unit. In 1989, a similar household could afford to purchase a unit costing $122,000.

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Address questions or comments concerning this report to Irwin Lithwick, Senior Market Analyst, CMHC Toronto Branch, at 781-2451, or toll free at 1-800-387-8558.

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TORONTO BUILDERS' FORECAST

Autumn 1990

Toronto Housing Sector to Remain Slow

As a result of the declines in new home sales and housing starts in the first half of this year, the Toronto housing sector will continue to experience low levels of activity. The primary causes for these declines are: uncertainty about the economic future, high interest rates, high house prices, and an oversupply of condominium units constructed in the past two years. The outlook for the remainder of 1990 is for a levelling off of activity at current low levels, with the possibility of an improvement beginning the middle of 1991.

Economic Uncertainty

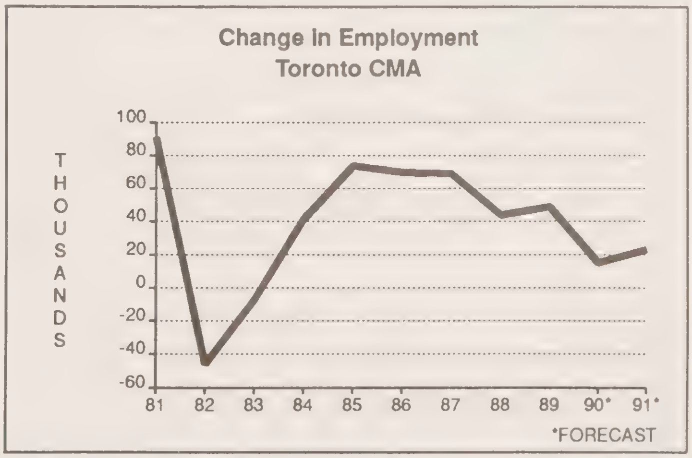
The national economic outlook remains uncertain. Manufacturing new orders, on a seasonally adjusted basis have risen in each of the three months, from February to April, after declining in the last quarter of 1989. However, after increasing by 0.2 per cent in the first quarter of 1990 Gross National Product fell in April and May. Price increases have remained low, with consumer prices increasing in the February to May 1990 period at an annualized rate of 2.3 per cent, the lowest since October 1987.

The Conference Board reports a continued decline of confidence in the economic future, as the index of consumer confidence in Ontario fell from 108 in the first quarter of 1989 to 74 in the second quarter of 1990. With this sort of declining momentum in the market, the prospects for below average levels of activity this fall are high. More significantly, the number of jobs in the manufacturing sector in Canada has declined by 156,000, from 2.205 million in June 1989, to 2.049 million in June 1990. Full time employment has increased by only 66,000 jobs, or 0.6 per cent over the 12 month period from June to June. In Ontario, the Help Wanted Index fell from 167 in June 1989 to 112 in June 1990, a decline of 27.3 per cent.

Within the Toronto area, the picture is much bleaker. The number of jobs in the manufacturing sector fell from 410,400 in the second quarter of 1989 to 378,200 in the second quarter of 1990. Although employment grew by 10,000 over the past year, the increase was concentrated in the Finance and Real Estate Sectors, both of which will be facing declining employment levels over the next few months.

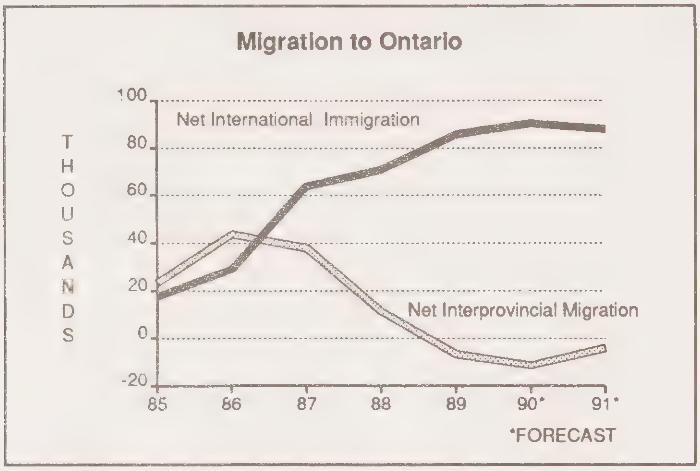
For 1990, we forecast an increase of 15,000 jobs compared to 49,000 jobs in 1988-1989. By the middle of 1991, the economy should begin to improve in response to moderating interest rates, resulting in an increase in production, to be followed by increased employment. As a result, on balance for the entire year, there will be an increase in employment of 23,000 in 1991.

The unemployment rate in Toronto stood at 3.9 per cent in June 1990, down from the 5.1 per cent level recorded in May, and a slight increase from 3.7 per cent in June 1989. The large outflow of persons from Toronto to the west has kept the unemployment rate from rising even faster. However, as the western economy continues to soften, migration flows to Western Canada will decline. As a result, the unemployment rate is expected to jump to 6.5 per cent by the end of the year, and reach 7.3 per cent in 1991.



SOURCE: Statistics Canada; forecast by CMHC.

Interprovincial migration figures show a net loss to Ontario of 6,500 in 1989. This compares to positive interprovincial migration figures of 11,000 in 1988 and 38,000 in 1987. Net interprovincial outmigration, as a result of declining migration into Ontario from other provinces, is expected to increase to 13,400 in 1990, and then fall back to 5,700 in 1991. However, net immigration from other countries remains strong. During 1989, net immigration to Ontario totalled 86,000, compared to 71,000 in 1988. Total net immigration is likely to increase in 1990 to 90,400, and then decline slightly to 88,000 in 1991. Assuming 60 per cent of net migrants come to Toronto, and that the average number of persons per household is 3.0, this combination of net interprovincial out-migration and strong immigration will result in 18,080 additional households in 1990 and 16,460 in 1991.



SOURCE: Statistics Canada; forecast by CMHC.

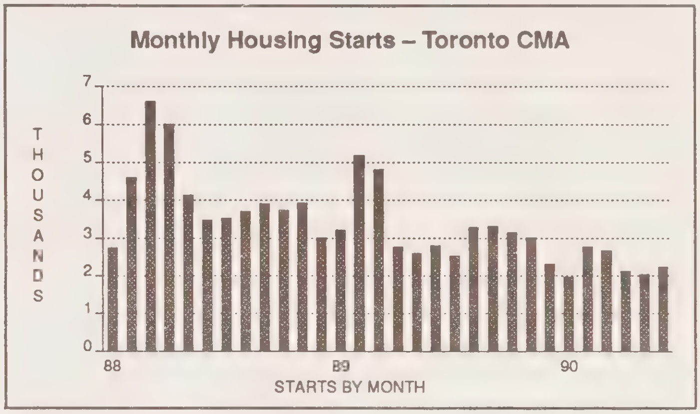
Mortgage interest rates increased during the first half of 1990 in response to stronger than expected economic activity, political uncertainty and continued inflationary pressures. Rates on both one and five year terms climbed to 14.25 per cent by the end of April 1990 and remained at that level throughout the second quarter. At 14.25 per cent mortgage interest rates were 2 full percentage points higher than at that beginning of the year.

Most forecasters expect interest rates to remain high throughout most of the third quarter of 1990 before declining during the remainder of the year. Interest rates will continue to decline, albeit modestly, throughout 1991. Although weaker economic activity will place downward pressure on interest rates during the second half of 1990 and first part of 1991, the combination of wage inflation, the introduction of the GST and high interest rates in the U.S., Japan and West Germany will moderate the decline. Mortgage rates are expected to remain high throughout the third quarter before declining by one-half to one full percentage point during the fourth quarter. They are expected to continue to decline further by between one-half to one percentage point on average in 1991.

Oversupply of New Housing

Within a period of a few months, the Toronto housing market turned from a strong sellers' market to a buyers' market, as the major indicators of housing strength (sales, starts, prices, resales, and sales-to-listing ratios) all weakened.

A major reason for this weakening was that the market had been overbuilt in the previous two years: whereas starts averaged 27,500 units in the period from 1970 to 1986, during 1987 to 1989, starts averaged 40,000, or 45 per cent higher than the long term average. As a result, the market was due for a correction.



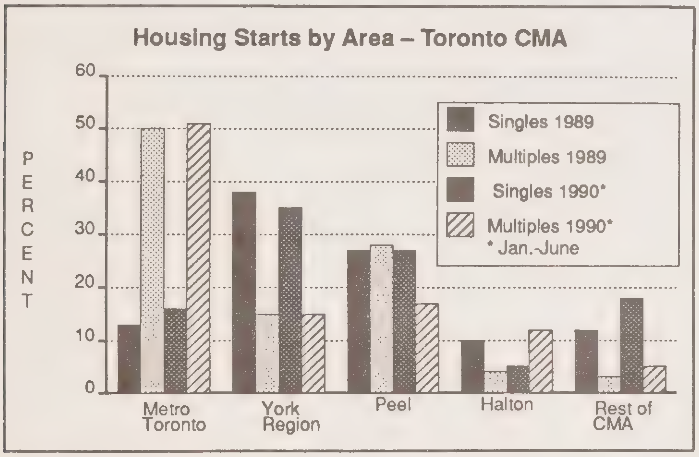
SOURCE: CMHC.

Of the various sectors, condominiums were the most overbuilt. We estimate that the Toronto market in the medium term can absorb approximately 9,000 condominium units per year, yet almost 20,000 units have been completed in the 18 months from the beginning of 1989 to June 1990. Moreover, a further 14,058 were under construction at the end of July 1990. As a result, there is a potential surplus of 22,000 units or the equivalent of 17 months of supply. In addition, there are a number of projects that have been planned although, since January, approximately 20 projects have been put on hold, It is this excess supply that is the primary cause of the current crisis in the condominium market, and the situation is not likely to improve until the excess supply is absorbed. The fact that so many projects have been put on hold means that, should the market start to improve, these projects will re-enter the market, likely preventing any major increase in prices for an even longer period. As a result of the large supply of new units, prices should decline by 10 per cent in 1990 and another 5 per cent in 1991. In addition, many builders will offer special incentives in order to sell out projects.

As a result of this oversupply of housing units, new starts are expected to decline by over 40 per cent in 1990 to a level of just under 20,000 units, rising slightly to 23,500 in 1991 as the housing sector leads the economic recovery. The number of single starts is expected to fall from 16,529 units in 1989 to 7,200 units in 1990 and then rise to 10,000

in 1991, while condominium apartment starts should fall from 12,382 to 5,300 units in 1990 and 5,800 in 1991. Many of the new units will be at the lower end of the price spectrum, as builders seek to satisfy the demand for affordable family housing. As the resale market starts to improve, the move-up market will create a demand for higher priced units as well. With regard to assisted rental housing, there will be a significant increase in 1990 and 1991 in the number of starts as projects approved by the federal and provincial governments begin construction.

In the first 6 months of 1990, 35 per cent of the starts of single detached units occurred in York Region, down from 38 per cent the previous year; Etobicoke and Newmarket were the only large municipalities to show an increase in single starts between 1989 and 1990. Metropolitan Toronto had 51 per cent of the multiple unit starts, down from 55 per cent in the corresponding period last year.



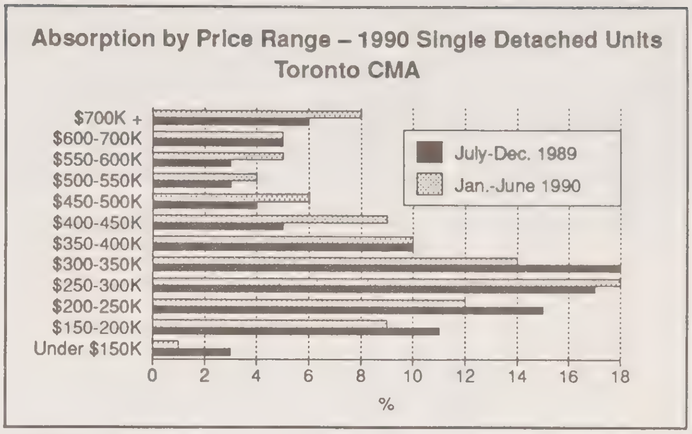
SOURCE: CMHC.

House Prices to Remain Flat

The median price of newly completed detached single family homes was $285,000 in the first half of 1990, up 8 per cent from the $263,000 recorded in the last half of 1989, according to statistics from CMHC's Housing Market Information System. About 10 per cent of newly completed single detached units in the first six months of 1990 had a price below $200,000, while 17 per cent were sold at a price above $500,000. These statistics exclude incentives being offered by many builders, such as reduced mortgage rates and various upgrades.

Prices for single detached units are expected to decline by 10 per cent for the rest of 1990 and the first part of 1991, in response to declining demand and an increase in the construction of lower priced, more affordable housing. The median price for a completed single detached unit is forecast to rise moderately by 5 per cent by the end of 1991.

At the end of the first half of 1990, there were a total of 1,024 completed but unoccupied single detached units in the Toronto CMA, compared to 151 at the end of June 1989.



SOURCE: CMHC.

This year, total new home sales are expected to number 8,500, representing a 45 per cent decrease from the very low figure in 1989. In 1989, new home sales totalled 15,395 units, or an average of 1,283 per month, 55 per cent lower than the 2832 units per month in 1988. Sales of new homes, according to the Toronto Home Builders' Association, declined sharply in the middle of 1989, and have remained in the 700 unit per month range since then. In 1991, sales will rebound by 35 per cent to 11,500 units.

Sales of new condominiums declined from a high of 1,661 in October 1988 to 226 units in August 1989, and have remained low since then, reaching as low as 97 units in April 1990. Sales will likely total 2,000 for 1990, which is slightly higher than the 1661 units sold in October 1988. For 1991, condominium sales will approach 2,750 units.

Land Supply

With the decline in starts, demand for serviced lots has also declined. Indication are that land prices have dropped significantly for the few number of sales that have occurred. Most of the large landholders, however, have decided not to sell their assets, as they prefer to hold on to their lots rather than cut prices.

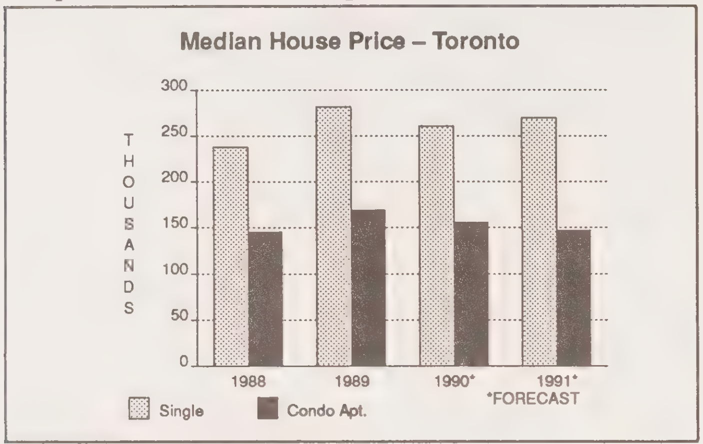
Land supply for single family housing is expected to be adequate to meet 1990 and 1991 requirements. However, limits on sewage capacity will increasingly constrain the supply of land, particularly in York and Durham regions. With a potential surplus of condominium units, the price of land zoned for high rise development will likely fall in 1990. As a result of municipal development charges permitted under Bill 20, lot prices for singles will likely increase, but only in 1991.

Resale Prices

The price of resale housing, according to the Toronto Real Estate Board, has remained relatively flat since February, as the median price for a single detached unit fluctuated around $270,000. In 1988, the median price for a single detached unit was estimated to be $238,000 while in 1989, the estimated median price of a single detached unit was $282,000, or 18 per cent higher than the previous year.

For 1990, prices for single detached units are expected to fall by 7.5 per cent, and then rise in 1991 by 3 per cent, resulting in an annual median price of $270,000 in 1991.

The median price for condominium apartments, which rose by 17 per cent from 1988 to 1989, is expected to fall, largely as a result of the large supply of new units being marketed. For 1990, the median condominium unit on MLS is forecast to be $156,000, down from $169,000 in 1989. The price will fall a further 6 per cent in 1991.



SOURCE: Toronto Real Estate Board and CMHC.

The total number of sales on MLS fell from 49,381 in 1988 to 38,960 in 1989, as high prices limited entry into the market. During the first 6 months of 1990, total sales numbered 15,869; for the entire year, we expect sales to fall to 27,500, a 30 per cent drop from 1989 sales. In 1991, sales should increase by 13 per cent to 31,000.

Rental Market Eases Slightly

The vacancy rate for private rental units rose in April 1990 to 0.7 per cent from 0.3 per cent in October 1989. The vacancy rate is expected to increase to 1.0 per cent by October 1990, mainly because of the large number of condominium units coming on stream in the next 14 months, many of which will be rented out. Most of these vacancies will be in higher priced units which are in competition with the new condominium units. Despite this easing, Toronto will continue to be one of the tightest markets in the country.

The average rent for an apartment in projects of six or more units in October 1989 was 7.4 per cent above the average rent in October 1988. Because of rent review applications above the provincial guideline of 4.6 per cent, average rents are expected to increase by 6 per cent in 1990.

Renovation Activity Increasing

The total value of building permits for home improvements in the first four months of 1990 in Toronto was $100 million, up 16 per cent from the $86 million issued for the comparable period in 1989. A major reason for the growth is the decision of homeowners to renovate rather than sell their existing home in order to buy a new home in the current weak market. As this weakness is expected to continue into 1990, renovation activity will likely increase in 1990 and 1991 by 15 per cent and 10 per cent respectively.

Mortgage Carrying Costs

According to Statistics Canada, the median household income of homeowners in the Toronto CMA was approximately $62,000 in 1987. Assuming incomes increase at approximately the same rate as consumer prices, roughly 5.5 per cent per year, then the average income of owners in 1990 would be $72,000. Assuming a 40 per cent downpayment, an expenditure of 28 per cent of income on debt service, and a mortgage interest rate of 14.25 per cent, the average household could purchase a home priced at a $235,000, which is slightly higher than the median resale house price in the first six months of 1990. In 1989, with an average income of $68,500 and an interest rate of 12.15 per cent, the average household could purchase a house that cost $255,000. Thus, as the result of a 2.1 percentage point jump in interest rates, housing in Toronto has become less affordable.

The average family income of renters under 65 years was $41,000 in 1987. At a growth rate of 5.5 per cent per annum, this should rise to $47,900 in 1990. Assuming a 15 per cent downpayment, the above renter household could afford to purchase a home costing $110,000 home in 1990; of the condominium apartments sold in the first 6 month of 1990, just over 1 per cent were priced at or below this level. In 1989, a similar household could afford to purchase a unit costing $122,000.

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Address questions or comments concerning this report to the Market Analyst, CMHC Toronto Branch, at 781-2451, or toll free at 1-800-387-8558.

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TORONTO BUILDERS' FORECAST

AUTUMN 1989

HIGHLIGHTS

- The housing market in 1990 will be characterized by moderate price increases and a cooling off of activity among move-up buyers. Both single and multiple starts will decline in 1990 in response to weakening demand and rising costs. Condominium apartment construction is forecast to decline in response to the potential oversupply expected in 1990.
- The volume of new home sales in 1990 will remain steady after a marked decline in 1989. Resale activity is expected to moderate.
- Renovation activity has become a major part of the housing industry and will continue to increase.

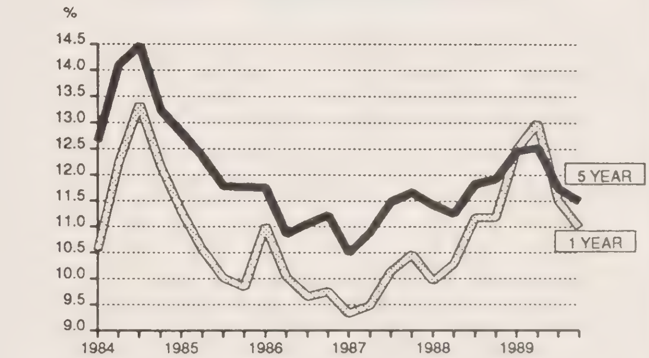
EMPLOYMENT ACTIVITY TO MODERATE IN 1990

Toronto continues to enjoy a low rate of unemployment at 4.5 percent. However, increases in the cost of living and the loss of potential inhabitants to more affordable areas surrounding Toronto, means that employment will rise only marginally, to 5.3 percent in 1990. Unemployment will rise as businesses revise budgets and trim payrolls in order to sustain current levels of productivity rather than try to expand and achieve higher levels of growth.

For the 1987 to 1988 period, employment increased by about 55,000 persons or 3.1 percent, a slight decline from the 3.8 percent growth experienced from 1986 to 1987. Employment in 1989 and 1990 is expected to increase by 2.7 and 2.3 percent which will bring a net gain of 50,000 and 45,000 jobs respectively. Most jobs created will continue to be in the service sector.

Gains from interprovincial migration fell dramatically from 36,370 in 1987 to 11,221 in 1988. Preliminary results suggest that the number of interprovincial migrants to Toronto should decline to 3,000 in 1989 and to 1,200 in 1990, mainly because of a slowing economy and the higher cost of living relative to other provinces. The net gain through international migration was 67,000 persons in 1988. This number is expected to peak at 69,000 persons in 1989, then drop slightly to 67,000 persons in 1990.

MORTGAGE INTEREST RATE FORECAST



SOURCE: CMHC.

INTEREST RATES FORECAST TO DECLINE

The outlook for mortgage rates throughout the remainder of 1989 will depend on the course of economic activity and inflation. Interest rates peaked in the second quarter of this year and the consensus of forecasters calls for a downward

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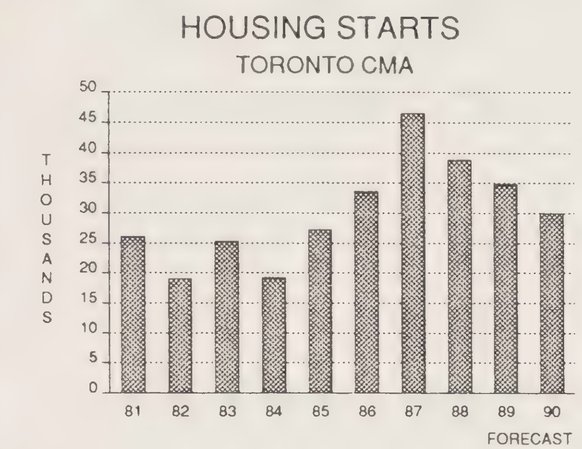
trend for the remainder of the year in response to weaker economic growth and a subsequent easing of inflationary pressures.

Although there are signs that interest rates are already moderating in response to slower economic growth, inflationary pressures and expectations are not expected to disappear in the short-term, and will moderate the magnitude of the decline in rates.



SOURCE: CMHC.

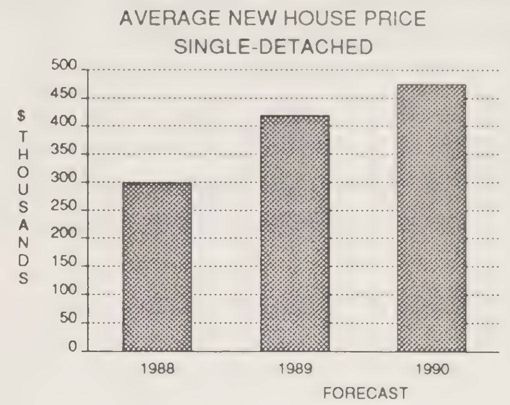
HOUSING STARTS TO DECLINE IN 1989 AND 1990

Housing starts are expected to decline 10 percent from the 1988 level, to 34,840 units in 1989. Single starts should decline by 17 percent in 1989, to 15,750 units. In 1990, there will be a further decline in the number of single starts, down 14 percent to 13,500 units. In addition, the practice of preselling condominium units will begin to dampen the once booming new condominium apartment market and starts should decrease 28 percent from an estimated level of 11,750 in 1989 to about 8,500 units in 1990. These declines will coincide with a slower economy, modest gains in employment, a slightly higher unemployment rate, and lower net migration levels.

MORE MODEST PRICE INCREASES IN 1990

New House Prices

The average price of a newly completed detached single family home in the Toronto CMA was $423,910 in the second quarter of 1989, up 47 percent from the $288,188 recorded in the same period in 1988, according to the

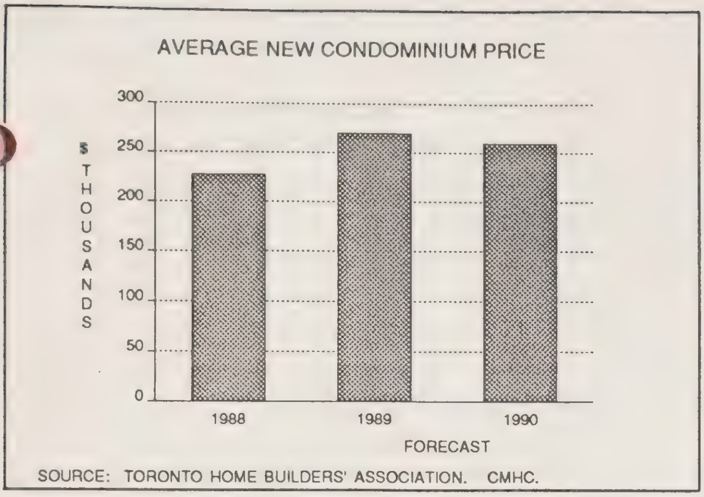


SOURCE: TORONTO HOME BUILDERS' ASSOCIATION. CMHC.

Toronto Home Builders' Association. Condominium apartment prices were up a more modest 18 percent from $227,012 in 1988 to $270,180 in 1989.

Prices for singles are expected to increase 14 percent from $419,000 in 1989 to $475,000 in 1990 because of the continuing high price of land, stepped-down demand, and the persistent problem of unavailable serviced lots. Builders do not expect the price of land to decrease in the short-term. Because of preselling practices, most new homes in Toronto, particularly singles, are recorded as absorbed when started. It appears that land is being time-released to keep pace with the declining number of sales which keeps the preselling process intact in this market. The recent under-supplied singles market should return to a more balanced position in 1990 after bottoming out at a seven-year low of 520 units in August 1989. Incentive packages, capped mortgage rates and the return of "model homes" to the Toronto market are signs of the more conservative levels compared to new home sales in 1987 and 1988.

In July 1989, a marked decline in condominium starts showed the market adjusting to a period of potential oversupply in 1990. Prices have stabilized in the past few months, and sales are very slow, in spite of brisk and advertising and marketing activity. The number of completed and unoccupied units has doubled from 1,039 units in March 1989 to over 2,200 units in August 1989. It is expected prices may decline by as much as 10 percent in 1990 in response to an oversupply of new units coming onto the market.



Resale Prices

Average year-over-year resale house prices will increase 8 percent to about $298,000 in 1990, after rising 19.8 percent from $229,635 in 1988 to $275,000 in 1989. Sales and prices should increase moderately this fall with additional increases in February, March, and April 1990.

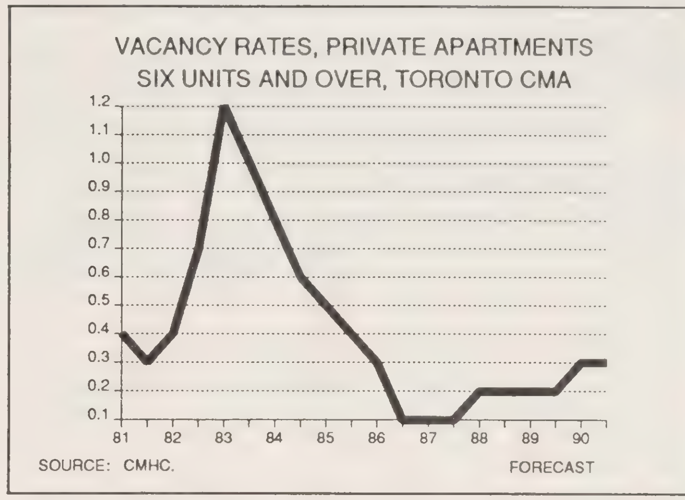
The sales of existing homes are expected to decline 23 percent from the 1988 level of 49,381 to 38,000 units in 1989. A more stable market in 1990, however, should cause sales levels to increase by 10 percent over the 1989 level to 41,800 units. In 1990, the resale market should be more balanced, with fluctuations in the usual peak times throughout the year (February-April, September-October) but with less dramatic increases in price and volume.

All areas and all types of units have comparable rates of price increase over the last year. Areas east and north of the City, however, may be of more interest to buyers as highway improvements have been announced by the Province and extended GO Train service to Oshawa will start in 1992.

RENTAL MARKET REMAINS TIGHT

The Toronto CMA rental market marks its third consecutive year of vacancy rates at 0.2 percent or less. Although the vacancy rate may ease to 0.3-0.4 percent in the next year, no major change in the rate is likely until the supply of rental housing is increased. In most cases, recorded vacancies are in newly completed buildings which have not rented up and in higher end product.

Average rent for a two-bedroom apartment in the Toronto CMA in October 1988 was $596. This is expected to rise 5.5-6.0 percent in 1989 and 1990 taking into consideration statutory rent increases and rent review decisions. The average rent for a two-bedroom apartment vacant in October 1988 was $1,053. Modest rent increases that roughly correspond to the inflation rate have discouraged new rental building activity as land costs soar.



LAND SUPPLY VERY LIMITED

Final approved residential plans show that areas in all directions from Metropolitan Toronto have significantly increased the number of final approved units in January to June 1989 compared to the same period last year. This situation, however, is indicative of the state of the market over the past two years. The land approvals' process is a lengthy one and by the time it is completed, it may not accurately reflect the current market.

Builders claim there is a lack of fully serviced lots for immediate use in all regions within the Toronto CMA. High prices as well as lengthy approvals and concentrated ownership of large parcels within the Toronto CMA are contributing to the short-term shortage of serviced land.

Bill 20, tabled in the Provincial Legislature on 17 May 1989, will allow both municipalities and school boards to impose development charges for the increased costs associated with municipal services and school facilities. Generally, development charges will be collected before a building permit is issued.

RENOVATION ACTIVITY CONTINUES TO INCREASE

Residential renovation activity in the Toronto CMA continues to account for a growing proportion of all residential construction activity. The value of renovation permits issued during 1988 was up 40.2 percent over 1987, while the value of improvements as a proportion of all residential building activity rose from 4.8 to 6.2 percent. In 1988, the value of renovation permits exceeded $320 million, up from $230 million in 1987. The high price of new housing and the fact that of many new homes are not in the CMA area have caused homeowners to turn to expansion and upgrading of their existing homes as a practical alternative to buying a new house. Renovation activity should maintain its momentum in the face of a slowing economy, unlike new homes activity.

MORTGAGE CARRYING COSTS TO EASE

According to post-censal estimates, the average household income in Toronto is approximately $51,000 in 1989. For the move-up buyer, an annual income of $68,100 is required to purchase an average-priced resale home of $275,000 in 1989. In 1990, the income required for a resale home of $298,000 will be $68,800. In comparison, an average-priced new single detached home at $419,000 requires an annual income of $103,800. In 1990, the income required for a home of $475,000 will be $109,700. These estimates are based on 40 percent down payment, forecast annual three-year mortgage interest rates, a 25-year amortization period, and a 30 percent gross debt service ratio.

Although the move-up buyer will be paying more for a house in 1990, lower interest rates and increases in wages will make housing slightly more affordable. The average household income is still well below the required income for average-priced new homes. Generally, the market has been driven mostly by move-up buyers who have built up equity in their previous home.

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TORONTO BUILDERS FORECAST

Spring 1989

HOUSING ACTIVITY TO MODERATE IN 1989

The housing market in 1989 will continue to be dominated by the move-up market and by investors active in the condominium apartment market. Housing starts are expected to decline from 1988 levels. Single starts will continue to decline, while multiple starts will increase marginally. The slight rise in multiple starts will result from increased production and strong presales activity in the condominium sector in 1988.

The volume of new home sales will decline and price increases will moderate in line with stepped down growth in the economy. Resale activity is also expected to moderate.

Renovation activity will continue to increase in importance during the next few years.

ECONOMIC GROWTH TO CONTINUE BUT AT A SLOWER PACE

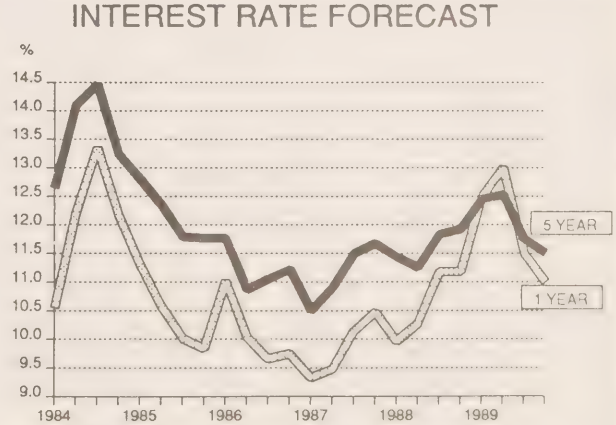
Toronto's diversified economy, while continuing to outperformed other areas of Ontario and Canada, will moderate during the latter half of 1989. Factors contributing to this slowdown include a reduction in migration to Toronto (particularly from other provinces) lower rates of job creation, a more moderate pace of consumer spending, a low rate of personal savings, and a reduced level of investment by industry. A net inflow of 45,000 persons to Toronto is expected in 1989, down moderately from 1988.

For the 1987 to 1988 period, employment increased by about 55,000 or 3.1 percent, a slight decline from the 3.8 percent growth experienced from 1986 to 1987. Employment in 1989 is expected to increase by about 2.7 percent for a net gain of 50,000 jobs. Many of these jobs will be in the lower paying service sector. In December 1988, the unemployment rate continued to be the lowest in the country. The unemployment rate is expected to remain in the 3.8 range this year.

MORTGAGE RATES INCREASING IN FIRST HALF OF 1989

Mortgage rates on all terms, which are currently at their highest levels in over three years, will continue to increase through the remainder of the first half of 1989 in line with the steady upward trend in money market rates as monetary policy continues to tighten. The increase in mortgage rates,

INTEREST RATE FORECAST



SOURCE: CMHC.

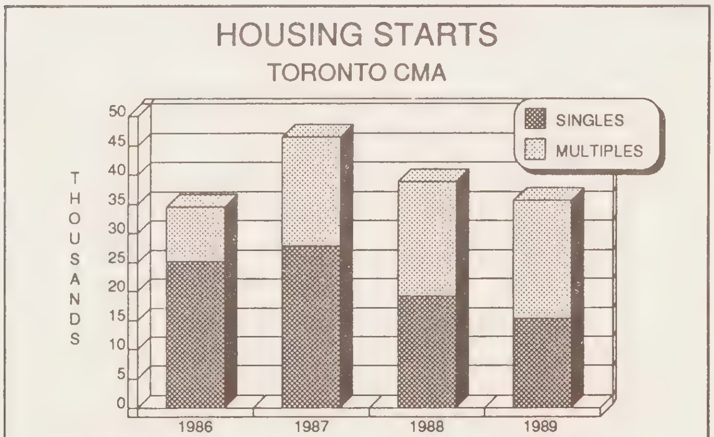
relative to other interest rates, may be moderated to some extent by the fact that lenders will need to place their large inflows of RRSP deposits into suitable assests such as mortgage loans. Nevertheless, the five-year (closed) mortgage rate will increase to peak at 12.75 percent in the second quarter. The one-year (closed) mortgage rate will also increase further before peaking in the 13.00-13.25 percent range during the second quarter.

A moderation in economic growth by the third quarter is expected to allow some easing in monetary policy and subsequently mortgage rates should start to decline gradually. By year-end 1989, mortgage rates are expected to decline by between 125 to 150 basis points from first quarter levels.

STRONG LEVEL OF STARTS ACTIVITY TO CONTINUE

Starts are expected to decline and price increases and sales volumes to moderate from previous years' levels. Housing starts in the Toronto CMA totalled 38,792 units in 1988, a decline of almost 17 percent from the 1987 level. Single starts dropped 31 percent while multiple were up five percent. Housing starts in 1989 are expected to decline about eight percent to roughly 35,600 units. Despite the decline in starts from the record 1987 level, 1988 starts and those forecast for 1989 are well above the average level of activity over the past decade.

Despite this decline, starts of multiple units in 1989 will increase three percent due to an increase in assisted housing and the continued strength of the condominium apartment market. Condominium apartment starts, which are expected to decline almost seven percent to roughly 11,000 units, will nevertheless remain well above historic levels of activity. Condominium starts in 1989 will rise as a proportion of total starts. In 1987 condominium starts represented almost 26 percent of total starts, while in 1989 this proportion should increase to roughly 31 percent. The continued strength of condominium starts in 1989 is attributable to strong presales activity in 1988. Condominium presales increased over 1987 levels due to strong investor activity and because first time buyers have been largely priced out of the single-detached housing sector in Toronto.



SOURCE: CMHC.

In 1988, condominiums accounted for 38 percent of new sales, up from 32 percent in 1987. The shift from freehold to condominium sales will continue because of the lack of reasonably priced serviced lots, a waning of pent-up demand from the early 1980's and slower rates of family versus non-family household formation.

There is some indication that the condominium apartment market is now entering a vulnerable phase. The recent high level of condominium apartment construction with a large investor component could make these units increasing difficult to rent at rates which cover carrying costs especially as the economy slows. Peripherally located units with lower levels of accessibility will be affected the most.

New condominums now tend to be almost exclusively constructed to suit an adult lifestyle. Strong demand exists for affordable ownership accommodation catering to young families. This potentially profitable market segment represents an opportunity for medium to high density forms of housing with good accessibility and neighbourhood amenities.

In contrast to the slight increase in multiple starts, a further decline in the order of about 20 percent is expected in the single-freehold market. Entry level home buyers have been priced out of this market in part because of the new housing product mix which favours move-up buyers. Consequently, many households now either seek relatively more affordable homes located in the Oshawa CMA and peripheral Toronto locations or substitute multiple unit housing forms. The trend to higher density forms of housing will continue and employment in residential construction will begin to decline with the shrinking labour intensive single detached housing sector.

New home sales were roughly 34,000 units in 1988, up 24 percent above 1987 levels. Virtually all new homes in the Toronto area are sold prior to construction. In 1989, new home sales will decline by 20 per cent due to high land costs, a potential over-supply of condominium units and a general slowing of the economy.

SHORT TERM LAND SUPPLY LIMITED

Based on the current pace of development and information from the Official Plan Approval process, there is a nine year supply of residential land in the five Regional Municipalities comprising the Greater Toronto area. About 40 percent of the vacant land intended for residential purposes is in the Peel Region. While there is no shortage of vacant land in the medium term, the short-run supply of serviced land is very tight. Localized infrastructure improvements are necessary to achieve the level of new housing development indicated by Official Plan approvals.

Land costs increased in the order of 100 percent in 1988 and have now stabilized, making the construction of modest priced housing difficult. In the Toronto market, land now accounts for about 49 percent of the price of a 1,750 square foot new house compared to 34 percent in January 1986. The price of a typical 35 foot lot in peripherally located areas is approximately $130,000. Lot prices are expected to increase in 1989 but at a more moderate pace.

PRICE INCREASES TO MODERATE IN 1989

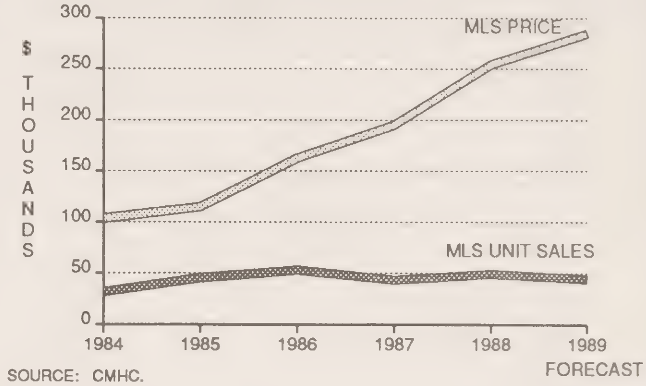
New House Prices

CMHC's average dwelling price for new absorbed single detached units was $256,731 in December 1988, up 17 percent from the previous year. A 10 percent increase is expected in 1989. This price is the base asking price for new units.

Resale Prices

On a year over year basis, the average MLS house price increased 30 percent to $254,112 in December 1988. A strong sellers' market last year was supported by lower interest rates in the first half of the year and the continued strong performance of Toronto's economy. Sales volumes in 1988 totalled 49,381 an increase of 14 percent from 1987.

AVERAGE MLS PRICE AND MLS SALES



In 1989, the resale market is expected to move toward a more balanced position. A price increase of 12 percent is expected, and by December 1989, the MLS house price will average about $285,000. A smaller increase in prices is expected for condominium apartment units due to a potential oversupply. MLS sales are forecast to decline 10 per cent to approximately 44,500 sales in 1989.

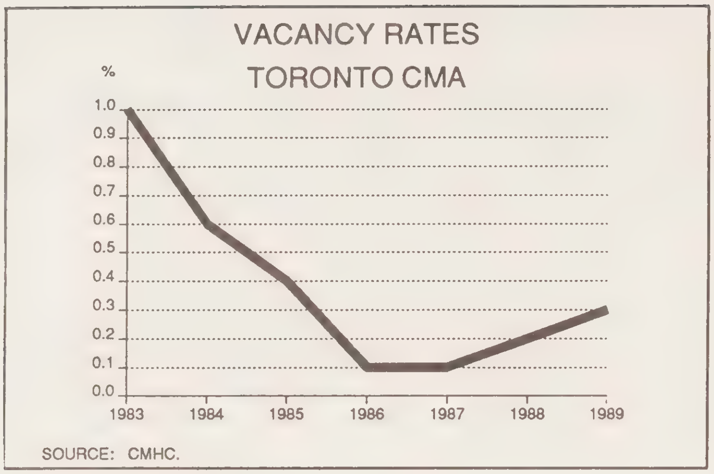
LEVEL OF RENOVATION ACTIVITY TO INCREASE

Residential renovation activity in the Toronto CMA will continue to include a growing proportion of all residential construction activity. The value of renovation permits issued during the first half of 1988 was up 26 percent over the same period in 1987, while the value of improvements as a proportion of all residential building activity rose from 4.1 to 5.1 percent. Last year the value of renovation permits exceeded $230 million, up from just under $165 million in 1986.

The high price of new housing and the location of many new homes in less accessible areas, have resulted in the expansion and upgrading of existing homes becoming more practical alternatives for many homeowners.

RENTAL MARKET REMAINS TIGHT

A vacancy rate of 0.2 percent was recorded in CMHC's April and October 1988 surveys. The few vacancies that exist tend to be concentrated in buildings that were recently completed or have high rents.

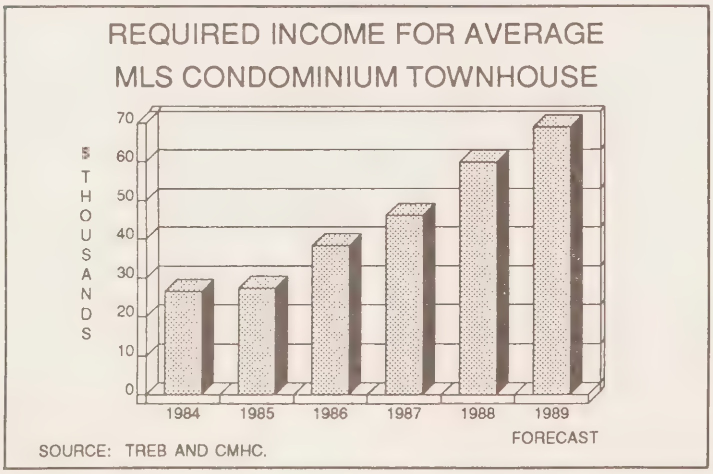


In Toronto CMA, the average monthly rent for all two-bedroom apartments in October 1988, was $596, an increase of 5.0 percent from the previous year. The average rent for vacant units was $1045. Rent increases in 1989 will likely be slightly higher. The vacancy rate will remain low at about 0.3 percent in 1989. Easing in the rental market is likely to occur in 1990 when increased levels of non-profit and co-operative housing units are completed.

Due to the high investment component in condominium apartment buildings, the availability of bachelor and one-bedroom luxury rentals is also expected to increase.

HOUSING CONTINUES TO BECOME LESS AFFORDABLE

Access to homeownership is becoming increasingly difficult for first time buyers. In December 1987, the average MLS condominium townhouse sold for nearly



$136,500. A family income of $46,000 was required to purchase this typical house with an 80 percent mortgage, a mortgage interest rate of 10.75 percent and assuming a household can devote 30 percent of its income towards principal, interest and tax payments.

From December 1987 to December 1988, the average price for this house type had increased about 29 percent, to approximately $175,000. Applying similar assumptions and using an interest rate of 11.50 percent resulted in a 30 percent increase in the required income to roughly $60,000.

By the end of 1989, the average condominium townhouse price is expected to increase about 14 percent to $199,500. Following the above example, but with a mortgage interest rate of 11.75 percent, a family income of almost $69,000 will be required.

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Please call Jill Metcalf, Underwriting Department at 781-2451 or toll free at 1-800-387-8558 for further information.

PUBLICATIONS AVAILABLE FROM CMHC

To receive the latest edition of CMHC's "Mortgage Market Trends" publication contact the Market Analysis Centre in Ottawa at (613)-748-2344.

CMHC recently released the findings of a national renovation study. The study titled, "Residential Renovation Overview", is available free of charge and may be obtained by contacting CMHC's Canadian Housing Information Centre at (613)-748-2367.

Questions or comments concerning this report may be addressed to the Market Analyst, CMHC-Toronto Branch at (416)-781-2451 OR TOLL FREE 1-800-387-8558.

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TORONTO BUILDERS FORECAST

Spring 1989

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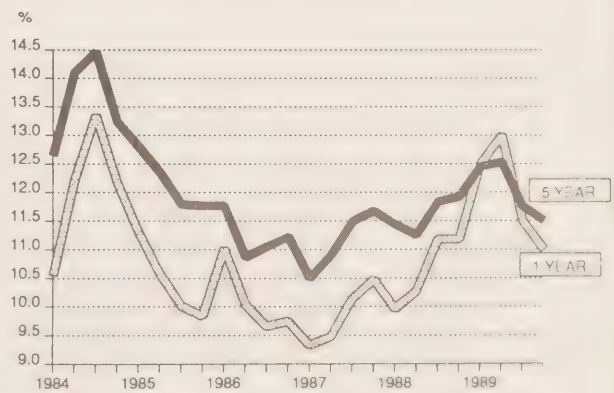
INTEREST RATE FORECAST



SOURCE: CMHC.

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NHA 6046 04/88
Canada

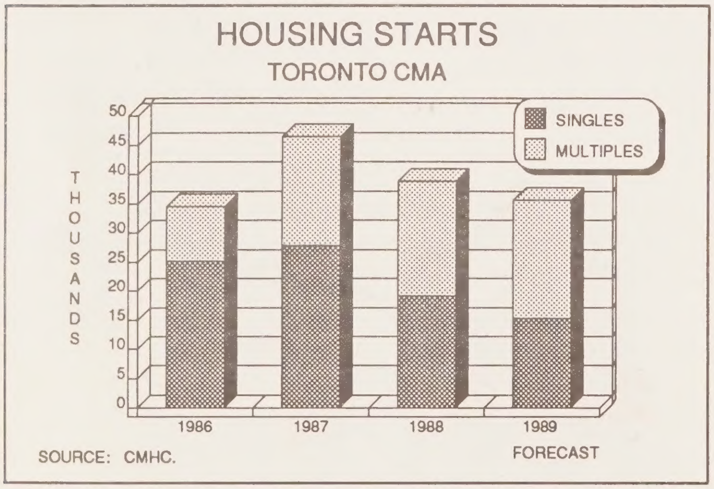
relative to other interest rates, may be moderated to some extent by the fact that lenders will need to place their large inflows of RRSP deposits into suitable assests such as mortgage loans. Nevertheless, the five-year (closed) mortgage rate will increase to peak at 12.75 percent in the second quarter. The one-year (closed) mortgage rate will also increase further before peaking in the 13.00-13.25 percent range during the second quarter.

A moderation in economic growth by the third quarter is expected to allow some easing in monetary policy and subsequently mortgage rates should start to decline gradually. By year-end 1989, mortgage rates are expected to decline by between 125 to 150 basis points from first quarter levels.

STRONG LEVEL OF STARTS ACTIVITY TO CONTINUE

Starts are expected to decline and price increases and sales volumes to moderate from previous years' levels. Housing starts in the Toronto CMA totalled 38,792 units in 1988, a decline of almost 17 percent from the 1987 level. Single starts dropped 31 percent while multiple were up five percent. Housing starts in 1989 are expected to decline about eight percent to roughly 35,600 units. Despite the decline in starts from the record 1987 level, 1988 starts and those forecast for 1989 are well above the average level of activity over the past decade.

Despite this decline, starts of multiple units in 1989 will increase three percent due to an increase in assisted housing and the continued strength of the condominium apartment market. Condominium apartment starts, which are expected to decline almost seven percent to roughly 11,000 units, will nevertheless remain well above historic levels of activity. Condominium starts in 1989 will rise as a proportion of total starts. In 1987 condominium starts represented almost 26 percent of total starts, while in 1989 this proportion should increase to roughly 31 percent. The continued strength of condominium starts in 1989 is attributable to strong presales activity in 1988. Condominium presales increased over 1987 levels due to strong investor activity and because first time buyers have been largely priced out of the single-detached housing sector in Toronto.



In 1988, condominiums accounted for 38 percent of new sales, up from 32 percent in 1987. The shift from freehold to condominium sales will continue because of the lack of reasonably priced serviced lots, a waning of pent-up demand from the early 1980's and slower rates of family versus non-family household formation.

There is some indication that the condominium apartment market is now entering a vulnerable phase. The recent high level of condominium apartment construction with a large investor component could make these units increasing difficult to rent at rates which cover carrying costs, especially as the economy slows. Peripherally located units with lower levels of accessibility will be affected the most.

New condominums now tend to be almost exclusively constructed to suit an adult lifestyle. Strong demand exists for affordable ownership accommodation catering to young families. This potentially profitable market segment represents an opportunity for medium to high density forms of housing with good accessibility and neighbourhood amenities.

In contrast to the slight increase in multiple starts, a further decline in the order of about 20 percent is expected in the single-freehold market. Entry level home buyers have been priced out of this market in part because of the new housing product mix which favours move-up buyers. Consequently, many households now either seek relatively more affordable homes located in the Oshawa CMA and peripheral Toronto locations or substitute multiple unit housing forms. The trend to higher density forms of housing will continue and employment in residential construction will begin to decline with the shrinking labour intensive single detached housing sector.

New home sales were roughly 34,000 units in 1988, up 24 percent above 1987 levels. Virtually all new homes in the Toronto area are sold prior to construction. In 1989, new home sales will decline by 20 per cent due to high land costs, a potential over-supply of condominium units and a general slowing of the economy.

SHORT TERM LAND SUPPLY LIMITED

Based on the current pace of development and information from the Official Plan Approval process, there is a nine year supply of residential land in the five Regional Municipalities comprising the Greater Toronto area. About 40 percent of the vacant land intended for residential purposes is in the Peel Region. While there is no shortage of vacant land in the medium term, the short-run supply of serviced land is very tight. Localized infrastructure improvements are necessary to achieve the level of new housing development indicated by Official Plan approvals.

Land costs increased in the order of 100 percent in 1988 and have now stabilized, making the construction of modest priced housing difficult. In the Toronto market, land now accounts for about 49 percent of the price of a 1,750 square foot new house compared to 34 percent in January 1986. The price of a typical 35 foot lot in peripherally located areas is approximately $130,000. Lot prices are expected to increase in 1989 but at a more moderate pace.

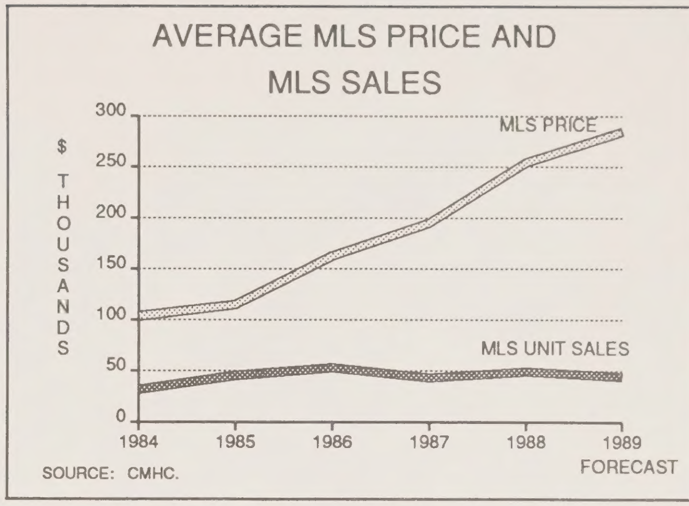
PRICE INCREASES TO MODERATE IN 1989

New House Prices

CMHC's average dwelling price for new absorbed single detached units was $256,731 in December 1988, up 17 percent from the previous year. A 10 percent increase is expected in 1989. This price is the base asking price for new units.

Resale Prices

On a year over year basis, the average MLS house price increased 30 percent to $254,112 in December 1988. A strong sellers' market last year was supported by lower interest rates in the first half of the year and the continued strong performance of Toronto's economy. Sales volumes in 1988 totalled 49,381 an increase of 14 percent from 1987.



In 1989, the resale market is expected to move toward a more balanced position. A price increase of 12 percent is expected, and by December 1989, the MLS house price will average about $285,000. A smaller increase in prices is expected for condominium apartment units due to a potential oversupply. MLS sales are forecast to decline 10 per cent to approximately 44,500 sales in 1989.

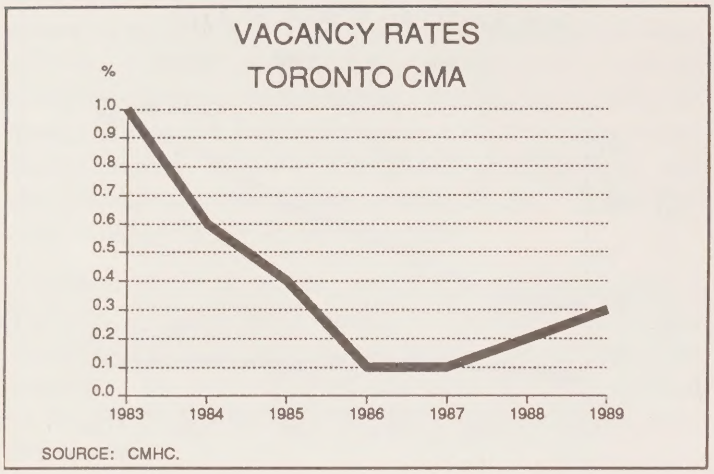
LEVEL OF RENOVATION ACTIVITY TO INCREASE

Residential renovation activity in the Toronto CMA will continue to include a growing proportion of all residential construction activity. The value of renovation permits issued during the first half of 1988 was up 26 percent over the same period in 1987, while the value of improvements as a proportion of all residential building activity rose from 4.1 to 5.1 percent. Last year the value of renovation permits exceeded $230 million, up from just under $165 million in 1986.

The high price of new housing and the location of many new homes in less accessible areas, have resulted in the expansion and upgrading of existing homes becoming more practical alternatives for many homeowners.

RENTAL MARKET REMAINS TIGHT

A vacancy rate of 0.2 percent was recorded in CMHC's April and October 1988 surveys. The few vacancies that exist tend to be concentrated in buildings that were recently completed or have high rents.

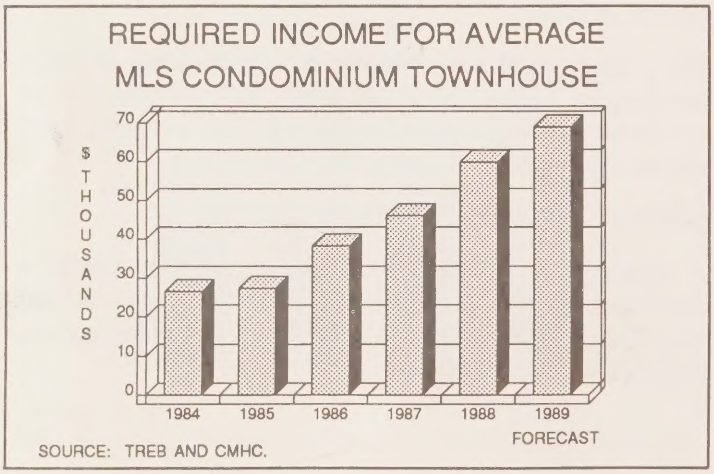


In Toronto CMA, the average monthly rent for all two-bedroom apartments in October 1988, was $596, an increase of 5.0 percent from the previous year. The average rent for vacant units was $1045. Rent increases in 1989 will likely be slightly higher. The vacancy rate will remain low at about 0.3 percent in 1989. Easing in the rental market is likely to occur in 1990 when increased levels of non-profit and co-operative housing units are completed.

Due to the high investment component in condominium apartment buildings, the availability of bachelor and one-bedroom luxury rentals is also expected to increase.

HOUSING CONTINUES TO BECOME LESS AFFORDABLE

Access to homeownership is becoming increasingly difficult for first time buyers. In December 1987, the average MLS condominium townhouse sold for nearly



$136,500. A family income of $46,000 was required to purchase this typical house with an 80 percent mortgage, a mortgage interest rate of 10.75 percent and assuming a household can devote 30 percent of its income towards principal, interest and tax payments.

From December 1987 to December 1988, the average price for this house type had increased about 29 percent, to approximately $175,000. Applying similar assumptions and using an interest rate of 11.50 percent resulted in a 30 percent increase in the required income to roughly $60,000.

By the end of 1989, the average condominium townhouse price is expected to increase about 14 percent to $199,500. Following the above example, but with a mortgage interest rate of 11.75 percent, a family income of almost $69,000 will be required.

RAPID APPROVAL SERVICE AVAILABLE FOR CMHC MORTGAGE LOAN INSURANCE

The majority of mortgage insurance applications submitted to CMHC's Toronto Branch receive approval in less than 24 hours. Immediate Telephone Approvals are available under CMHC's PRIME Program.

Further revisions to policies are having a very positive effect on investor purchasers. CMHC is prepared to offer mortgage insurance on rental loans up to 85 percent of value. Underwriting fees and premiums may be added to the mortgage loan should the entrepreneur so desire.

Please call Jill Metcalf, Underwriting Department at 781-2451 or toll free at 1-800-387-8558 for further information.

PUBLICATIONS AVAILABLE FROM CMHC

To receive the latest edition of CMHC's "Mortgage Market Trends" publication contact the Market Analysis Centre in Ottawa at (613)-748-2344.

CMHC recently released the findings of a national renovation study. The study titled, "Residential Renovation Overview", is available free of charge and may be obtained by contacting CMHC's Canadian Housing Information Centre at (613)-748-2367.

Questions or comments concerning this report may be addressed to the Market Analyst, CMHC-Toronto Branch at (416)-781-2451 OR TOLL FREE 1-800-387-8558.

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